

Israeli Forces to Complete Lebanon Pullout by June 1

JERUSALEM — Israel announced Sunday that it would complete the withdrawal of its troops from Lebanon by June 1, but it reserved the right to send its forces back across the border if it was attacked or felt endangered.

At an eight-hour meeting, the cabinet voted, 17-3 with one abstention, to advance the pullout, which had been expected by September, apparently because of Shiite Muslim guerrilla attacks and public pressure at home.

The new date is a few days short of the third anniversary of the Israeli invasion of Lebanon on June 6, 1982.

Israel's armed forces radio said that the cabinet had also agreed to set up a security zone in southern Lebanon after the withdrawal but gave no details of its size.

Senior military sources said Friday that Israel would be prepared to accept a security zone in southern Lebanon for an informal agreement with Lebanon's Shiite Muslim militia to keep the area quiet, The New York Times reported.

"We would be prepared to trade the security zone for a deal with the Shites," said a senior military source directly involved in policymaking on Lebanon. "We would like them to know that we mean business. Though we know that Amal could not, even if it wanted, fully guarantee security in the area, we believe they could do so to a large degree."

The official's remarks, Israeli military analysts said, appeared to reflect a change in Israeli military thinking in recent months.

A communique Sunday said the Israeli government approved a proposal by Defense Minister Yitzhak Rabin to implement the third and last stage of the military withdrawal.

"Implementation of this stage will be terminated by the beginning of June," the communique said. Energy Minister Moshe Shaleh confirmed that this meant June 1.

Mr. Rabin warned Shiite Muslim and Palestinian guerrillas not to attack northern Israel.

"The army reserves for itself the right to defend against land or sea attacks from anywhere in Lebanon," he said. "If any factor 30, 40 or 50 kilometers from our borders endangers Israel, we will operate against it." The distance is 18 to 30 miles.

Mr. Rabin said he had refused for security reasons to recommend that the cabinet set a specific date for the pullout.

Prime Minister Shimon Peres had faced differences within the nine-party government over the size of the anti-guerrilla security zone.

Mr. Rabin was known to favor a six- to nine-mile-deep buffer zone patrolled by the Israeli-backed South Lebanon Army militia and local Druze and Shiite militias.

But hard-line cabinet members, such as former Defense Minister Ariel Sharon and Foreign Minister Yitzhak Shamir, said that the distance was not enough to provide security for northern Israel.

Israel sent its army into Lebanon with the avowed aim of driving Palestinian guerrillas away from its border. The Israeli control about 20 percent of Lebanon.

Military sources said the Israeli Army was about to complete the second stage of the withdrawal by leaving the Bekaa Valley in eastern Lebanon, where Israeli troops face the Syrian Army, and from the port city of Tyre.

The Israeli military radio said the troops had completed dismantling or blowing up installations in the east.

More Fighting in Lebanon

Fresh fighting broke out around the southern Lebanese port city of Sidon, in Beirut and in the nearby Chuf mountains Sunday, United Press International reported from Sidon.

Twenty people were reported killed Friday night in fighting in and around Sidon. Fifty people were reported wounded in the artillery and machine-gun exchanges Friday night and Saturday.

Druze and Lebanese Army gunners shelled several villages in the Chuf mountains overlooking Beirut on Sunday, while soldiers and Druze militia clashed with tanks, anti-aircraft and heavy machine guns on the front lines, military sources said.

The Christian Voice of Lebanon radio said that at least one civilian was wounded in the Chuf.

Christian and Muslim militiamen in Beirut traded heavy machine-gun fire Sunday on the Green Line dividing the capital, police said.

U.S. Interprets ABM Treaty as Allowing Tests Of Space Arms

WASHINGTON — The Defense Department has issued a broad interpretation of the 1972 treaty on anti-ballistic missiles that would clear the way for extensive testing of space weapons designed under the Strategic Defense Initiative research program.

The Pentagon, in a statement issued last week, said that the United States would "reserve the right" to disregard provisions of the treaty in reprisal for purported Soviet violations, raising the possibility that experiments would proceed even if they did not comply with the treaty.

The statement, contained in a report to Congress, was the most explicit indication to date of how the administration might respond to what it has described as clear-cut Soviet violations of treaty limits on anti-missile defenses.

A senior administration official said Saturday that the language on treaty violations had been sent to Congress over objections from some State Department officials, who felt it might give the impression that the United States did not take its treaties seriously.

Critics of the anti-missile defense program, popularly known as "star wars," have said that experiments planned in the next few years would violate treaty limits on the field testing and engineering of weapons designed to shoot down ballistic missiles.

But the Defense Department statement said that many of the developing technologies could be tested in space and on land because they fell into "gray areas" not limited by the treaty.

The report listed 15 "major experiments" that the Pentagon said it believed could be conducted without violating the treaty, including tracking of objects on earth and in space and test firings in space of two varieties of weapons designed to intercept high-speed projectiles.

Administration officials have consistently argued that the Strategic Defense Initiative research program would be carried out in compliance with the 1972 treaty.

They have said that the first decade or so of the program would consist of research to determine whether a defense against ballistic missiles is possible, and that they would seek amendments to the treaty before actually deploying an anti-missile shield.

The administration has accused the Soviet Union of violating the 1972 treaty by beginning construction of a large radar in Krasnoyarsk, in central Siberia, and has asserted that other Soviet developments in anti-missile technology may also be violations.

The Pentagon statement last week said:

"We do reserve the right to respond to these violations in appropriate ways, some of which may eventually bear on the treaty constraints as they apply to the United States."

"The United States government must guard against permitting a double standard of compliance, under which the Soviet government would expect to get away with various violations of arms agreements while the U.S. continues to abide with all provisions."

The official said that he did not expect such a situation to arise "in the next year or two" but that it might occur by 1988, when the Krasnoyarsk device, known as a phased-array radar, is scheduled to be completed.

John E. Pike, associate director of the Federation of American Scientists and a critic of the Strategic Defense Initiative program, said Saturday that the new language was contrary to administration's declared policy of halting "erosion" of the treaty on anti-ballistic missiles.

"Now we're saying that we intend to help contribute to the erosion," Mr. Pike said. "Rather than getting the Russians back on the reservation, we intend to get off the reservation with them."

Mr. Pike said that he believed the language was intended to give the administration an excuse for proceeding with experiments that it could not otherwise justify under the treaty.

He said that several of the 15 experiments listed in the new Pentagon report appeared likely to run up against treaty restrictions. Mr. Pike cited two planned experiments that would test weapons based in space and designed to shoot down incoming enemy projectiles.

The Pentagon document said that these tests would comply with the treaty because they would be designed to shoot down anti-satellite weapons, which are easier targets than anti-ballistic missiles, known as ABMs.

"To ensure compliance with the ABM treaty, the performance of the demonstration hardware will be limited to the satellite defense mission," the report said.

It added that the test "will also permit a decision to be made" on whether the weapons can be used against ballistic missiles.

Mr. Pike said such a test probably would comply with the treaty but would be "a waste of money" because the air force already knows how to shoot down anti-satellite weapons.

Kohl Condemns 'the Nazi Tyranny' At Concentration Camp Memorial

Chancellor Helmut Kohl speaking Sunday as he stood in front of a memorial obelisk at the site of Bergen-Belsen, a Nazi concentration camp liberated by British troops 40 years ago.

By James M. Markham

BERGELSEN, West Germany — At a ceremony marking the 40th anniversary of the liberation of the Bergen-Belsen concentration camp on Sunday, Chancellor Helmut Kohl squarely accepted Germany's "historical responsibility for the crimes of the Nazi regime."

"This responsibility is reflected not least in never-ending shame," declared the chancellor, standing beside a massive stone obelisk on the site of the Nazi camp where more than 50,000 people died. "We shall not let anything in this context be falsified or made light of."

Mr. Kohl gave his speech — one of the most forthright and unflinching that a West German leader has made about the Hitler era — surrounded by senior political figures, ambassadors, local people and camp survivors, who made pilgrimages from Israel, the United States and other countries.

After its capture by British troops on April 15, 1945, the Bergen-Belsen camp, located on the north German flatlands, was burned because a typhus epidemic among its 58,000 surviving prisoners made it a health hazard.

The memorial to the camp is a vast open park punctuated by raised mounds containing mass graves. A gray stone wall bears engraved epitaphs to the Jews, Gypsies, Poles, Russians, French and others who died from torture, starvation and disease under the administration of the Nazi SS.

The address by Mr. Kohl, who was invited last year to speak at the camp by the leaders of West Germany's 28,000-member Jewish community, was awaited with considerable interest because of the outcry in the United States over his invitation to President Ronald Reagan to lay a wreath at a German military cemetery in Bitburg that contains SS graves.

Mr. Kohl did not allude to the controversy, nor did he or other speakers mention Mr. Reagan's eleventh-hour plans to include the camp site on his German itinerary next month in an attempt to placate criticism of his Bitburg stop.

However, in an unscheduled addition to the program, Robert E. Tynes, the U.S. consul in Hamburg, read a message from Mr. Reagan that extended his "personal best wishes to the survivors and families of the prisoners of the Lager, to the Central Council of the Jewish People in Germany and to the Federal German government."

"The Holocaust is a part of the consciousness of responsible human beings everywhere, no matter what age," the Reagan message said.

Speaking softly, Chancellor Kohl declared: "We in the free part of Germany realize what it means, following Auschwitz and Treblinka, to have been taken back into the free Western community. Those nations did so not least with the justified expectation that we will not disown the crimes perpetrated in the name of Germany against the nations of Europe."

Mr. Kohl noted that "the terror of the totalitarian regime was directed against the Jews in particular," and announced that his government intended to establish a new institution called the Archive for the Study of Jewish History in Germany.

The chancellor also recalled that 50,000 Russian prisoners of war died in the Bergen area and that less than half of the six million Soviet soldiers captured by the Germans survived their harsh captivity which he said "amounted to no less than torture."

"Reconciliation with the survivors and descendants of the victims is only possible," he declared, "if we accept our history as it really was, if we Germans acknowledge our shame and our historical responsibility, and if we perceive the need to act against any efforts at undermining human freedom and dignity."

Camp Survivor Appeals To Reagan on Bitburg

WASHINGTON — Elie Wiesel, an author and death camp survivor, implored President Ronald Reagan to cancel a visit to a German cemetery where Nazi soldiers are buried.

Asked about Mr. Reagan's response to Mr. Wiesel's speech, the White House deputy press secretary, Larry Speakes, said, "The president was obviously moved."

Mr. Wiesel appeared at the White House to receive the Congressional Gold Medal of Achievement, the highest honor that the government gives to civilians. It was awarded to him by Congress for humanitarian efforts and contributions to human rights and literature.

Even when Mr. Wiesel, 56, entered the Roosevelt Room after a 26-minute private meeting with Mr. Reagan, it was unclear what he would say and how Mr. Reagan would react. Mr. Wiesel told friends that although he had

would not change his plans to visit the cemetery with the West German chancellor, Helmut Kohl, who requested the visit.

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Brussels Bomb Hits NATO Assembly

BRUSSELS — Two bombs exploded during the weekend in Brussels, damaging the headquarters of the North Atlantic Treaty Organization and the offices of a West German electronics firm. A previously unknown leftist guerrilla group claimed responsibility.

The first attack on Saturday, which hit the assembly, prompted fears that an earlier campaign against North Atlantic Treaty Organization targets had been revived.

The Revolutionary Front for Proletarian Action spray-painted the initials FRAP in red at the scene of both blasts. The second bomb exploded Sunday at the Brussels offices of the Frankfurt-based company AEG-Telefunken.

The two pre-dawn attacks caused property damage but no casualties.

Security officials, concerned by the fresh violence after a three-month lull in an anti-NATO bombing campaign in Belgium, said they could not fully protect all potential diplomatic, industrial and political targets in the city, which houses NATO and European Community headquarters.

Ivan Roggen, the provincial governor of Brabant, which includes Brussels, said that security patrols would have to be stepped up.

But he said little could be done against small, well-organized guerrilla groups.

A Telefunken spokesman said that the company's Belgian subsidiary was not engaged in military electronics production, although its parent company was.

Saturday's attack against the central Brussels building housing the secretariat of the parliamentary assembly broke windows, wrecked a parked car and damaged furniture and archives. It provoked protests from assembly leaders who have been pressing for closer security surveillance since last summer.

The assembly building is situated in the fashionable Petit Sablon area near the Royal Palace and Foreign Affairs Ministry.

Assembly sources said half-hourly foot patrols by police had been out in recent weeks and the narrow street at the back where the bomb was left on a window sill was especially vulnerable.

The sources said Belgian security officials had rejected the assembly's past demands for still tighter security on the ground of cost and had advised it to put adhesive tape on windows to diminish the force of any bomb blast.

The assembly's deputy secretary-general, Jean Remon, said: "We are a second-rank target, but by mistake or spite we thought they might attack us."

The 184-member assembly, which brings together parliamentarians from the 16 allied Western countries twice a year to debate defense-related issues, is independent of NATO.

It has no legislative power but acts as a sort of parliamentary support group for the alliance in member countries.

The Revolutionary Front promised that it would issue a statement of its motives in a phone call to a Brussels radio station on Saturday, but this had not been published by late Sunday. Police said they did not know if there were links between the group and the Fighting Communist Cells that claimed responsibility for the earlier bombings.

The Fighting Communist Cells said they were responsible for a spate of bombings against NATO targets in Belgium over a four-month period ending in January. Some of the attacks were against companies that it said were involved in producing U.S. cruise and Pershing-2 nuclear missiles.

During that campaign, France's Direct Action and West Germany's Red Army Faction said they were forming a joint "political-military front in Western Europe" to strike at NATO.

In the two most serious attacks against targets all over Europe, a high-ranking official of the French Defense Ministry and a West German industrialist whose company was involved in major military contracts were assassinated.

Reagan Warns Against 'Shameful Surrender' in Nicaragua

WASHINGTON — President Ronald Reagan, in a last-minute attempt to salvage his request for \$14-million in aid to Nicaraguan rebels, has accused his Democratic opponents in Congress of advocating a "shameful surrender" to the Sandinist government in Nicaragua.

Facing almost certain defeat when the House and Senate vote on the aid package Tuesday, President Reagan declared Saturday in his weekly radio speech that Democrats who wanted to give aid to Nicaraguan refugees instead of to the rebels were encouraging the development of a Soviet-backed terrorist stronghold in Nicaragua that would soon pose a threat to U.S. security.

Mr. Reagan said terrorist supporters of Colonel Omar Qadafi, the Libyan leader, and of Ayatollah Ruhollah Khomeini of Iran were already in Nicaragua, "two hours by air from United States borders."

He also reiterated a report that administration officials had leaked earlier last week that Soviet military advisers had been stationed in the combat zone in northern Nicaragua.

A White House official said later Saturday that the Soviet officials were few in number and had been

sighted near Cotal, where a Sandinist military garrison is situated.

President Reagan picked up few, if any, votes Thursday when he offered to compromise by pledging that none of the aid to the rebels would be used for weapons during the fiscal year ending Sept. 31. Senate Republicans disavowed the compromise also would have allowed the Central Intelligence Agency to spend other funds to arm the rebels.

President Reagan's speech Saturday was an unequivocal rejection of an alternative aid proposal set forth Friday by a bipartisan group of six House members. The alternative rules out any direct aid to the rebels, known as contras.

"Any proposal that abandons over 15,000 members of a democratic resistance to Communism is not a compromise, it's a shameful surrender," President Reagan said. "If Congress ever approves such a proposal, it would hasten the consolidation of Nicaragua as a Communist-terrorist arsenal. And it would give the green light to Soviet-sponsored aggression throughout the American mainland, ultimately threatening our own security."

■ Cease-Fire Offer Is Reported

The Boston Globe reported Sunday that President Daniel Ortega would agree to an immediate cease-

fire if the United States ended all support for the rebels. The Associated Press reported in Boston.

President Ortega gave that message to Senators John F. Kerry, a Massachusetts Democrat, and Thomas R. Harkin, a Democrat of Iowa, during talks in Managua, Senator Kerry told the newspaper.

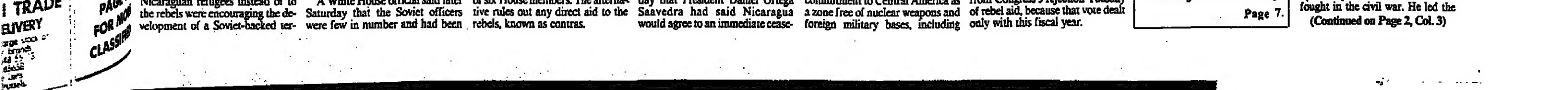
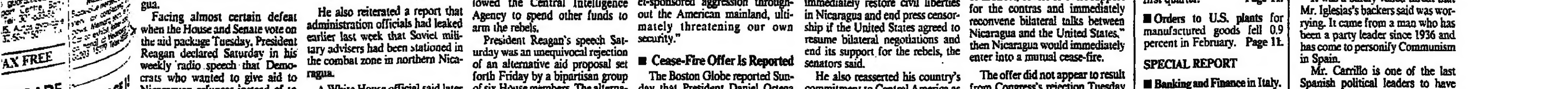
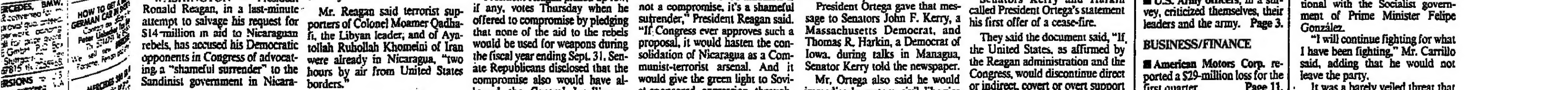
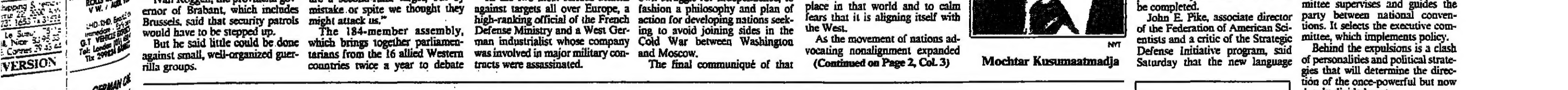
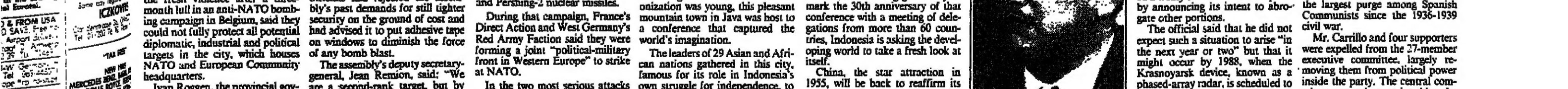
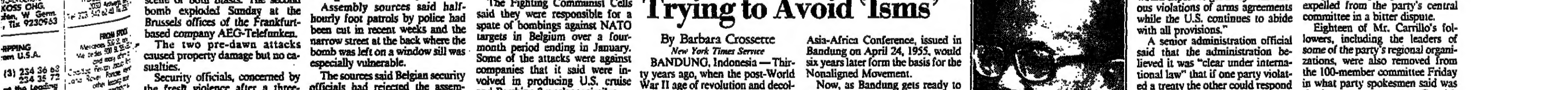
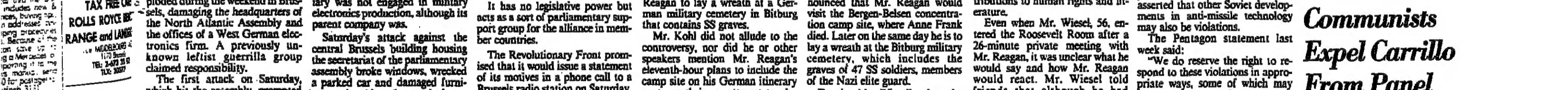
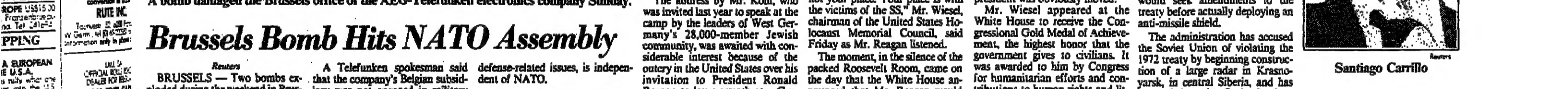
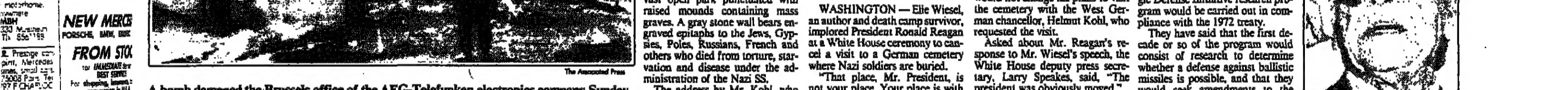
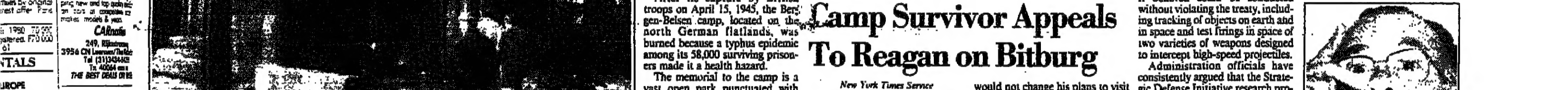
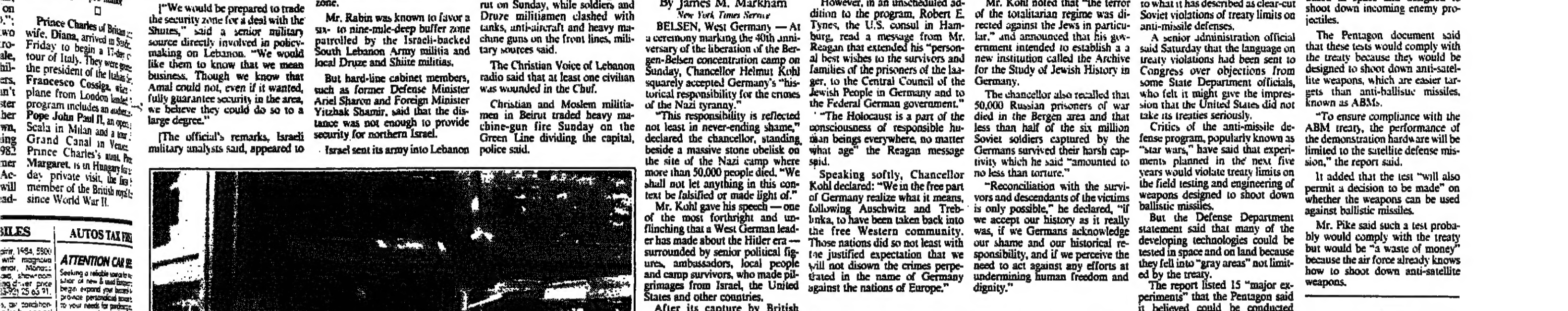
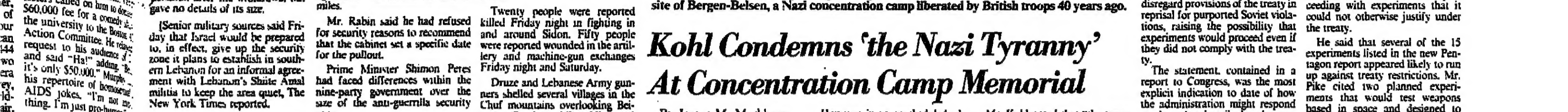
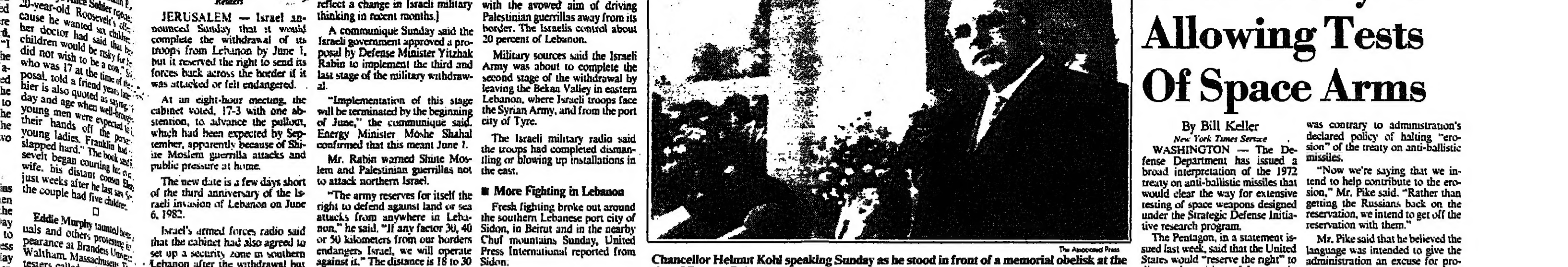
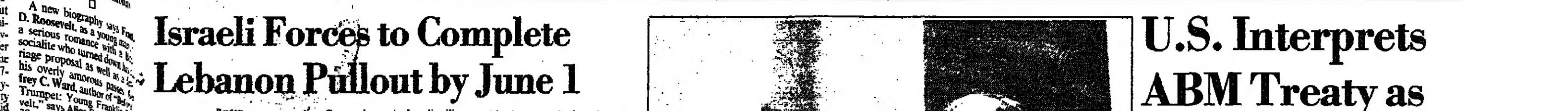
Mr. Ortega also said he would immediately restore civil liberties in Nicaragua and end press censorship if the United States agreed to resume bilateral negotiations and end its support for the rebels, the senators said.

He also asserted his country's commitment to Central America as a zone free of nuclear weapons and foreign military bases, including those of the Soviet Union and Cuba.

Senators Kerry and Harkin called President Ortega's statement his first offer of a cease-fire.

They said the document said, "If the United States, as affirmed by the Reagan administration and the Congress, would discontinue direct or indirect, covert or overt support for the contras and immediately reconvene bilateral talks between Nicaragua and the United States," then Nicaragua would immediately enter into a mutual cease-fire.

The offer did not appear to result from Congress's rejection Tuesday of rebel aid, because that vote dealt only with this fiscal year.



WORLD BRIEFS

15 Killed, 90 Hurt in India Protests

NEW DELHI (AP) — More than 90 persons were wounded over the weekend during demonstrations in the western state of Gujarat and the northernmost state of Kashmir, and 15 were killed Friday in the eastern state of Bihar, the United News of India news agency reported.

In Kashmir, more than 25 persons, including five policemen, were injured Sunday in the capital of Srinagar. More than 60 were injured Saturday during a clash with demonstrators protesting the death of a Moslem youth killed when a bus rammed into a shop.

Six persons were injured Sunday in the town of Baroda in Gujarat when troops shot into a crowd protesting a proposed increase in job quotas for lower castes.

The 15 persons killed were mostly impoverished tribesmen, armed with bows and arrows, who are seeking more fishing rights in the village of Gangchi. The news agency, quoting official sources, said police were attacked by agitators seeking, among other things, the right to fish in a government pond. Landlords and upper castes in the village oppose them.

Spain Moves Closer to Abortion Law

MADRID (NYT) — A measure to permit abortion in some cases has moved closer to legislative approval after Spain's political parties agreed to vote for it.

Leaders of all the parties represented in the lower house of the Cortes, or parliament, agreed on Friday to amend an existing law — which has never taken effect — along lines recommended by the country's top court, the Constitutional Tribunal. Gregorio Peces-Barba, the president of the lower house, predicted that the law would be approved and in effect by the end of June.

The court on April 11 declared the law unconstitutional but suggested in the complete text of its ruling, issued Wednesday, that the law needed only to be tightened to meet constitutional guarantees of a right to life for both the mother and the child. The law would permit abortions only in cases of rape, a malformed fetus or a threat to the mother's life or health.

Hanoi Allows One-Time U.S. Visit

HANOI (Reuters) — Vietnam will allow a team of U.S. experts to visit a B-52 crash site in June to examine the feasibility of recovering the remains of missing Americans, the foreign minister, Nguyen Co Thach, said Sunday.

He emphasized that the visit to Gia Lam, 25 miles (40 kilometers) east of Hanoi, was only for a preliminary survey. He appeared to rule out further visits unless the United States normalized its relations with Vietnam, calling this a special case "to whet their appetite."

New British Royal Tie to Nazis Cited

LONDON (AP) — A brother-in-law of Prince Philip, Queen Elizabeth II's husband, was a high-ranking officer in the Nazi SS, London newspapers said Sunday.

In new reports of links between the elite Nazi unit and members of the royal family, The Sunday Times and The Mail on Sunday identified the officer as Prince Christoph of Hesse, who married Prince Philip's sister Sophie in 1930. Buckingham Palace refused to comment on the reports. Prince Christoph, a brigadier general, was killed in an air crash in 1943 and "was a close aide of Heinrich Himmler, head of the SS and the Gestapo," The Sunday Times said.

The reports followed Monday's disclosure by the Daily Mirror that the wife of the queen's first cousin, Prince Michael, is the daughter of the late Baron Gunter von Reibnitz, an SS officer who joined the Nazi party before Adolf Hitler achieved power in 1933.

Head of U.S. Security Agency Named

WASHINGTON (WP) — President Ronald Reagan will nominate Lieutenant General William E. Odom, army intelligence chief and a former assistant army attaché in Moscow, to become director of the National Security Agency, the Pentagon has announced.

If confirmed by the Senate, General Odom would succeed an air force lieutenant general, Lincoln D. Fauer. He resigned April 1 after a dispute with Defense Secretary Caspar W. Weinberger over cuts the administration made in the agency's fiscal 1986 budget, according to officials in the Pentagon and the intelligence community.

The agency, the most technologically oriented of the government's intelligence agencies, monitors developments around the world using planes, ships and satellites.

U.S., Bahamas Report Big Drug Raid

MIAMI (NYT) — U.S. and Bahamian officials have spread a dragnet throughout 30 Bahamian islands and along 150 miles (243 kilometers) of the Florida coast in the past two weeks, seizing 5,500 pounds (2,504 kilograms) of cocaine and 33,872 pounds of marijuana with an estimated street value of \$100 million.

They also made 58 arrests in connection with drug smuggling, although officials declined to provide any details at a news conference Friday. They said they also arrested nearly 600 Haitians on their way to the United States to seek refuge.

In all, 775 people and 26 agencies of both governments were involved, along with more than 85 law enforcement vessels, more than 30 aircraft and a half-dozen radar facilities, officials said. The operation was described as the largest of its kind aimed at narcotics smuggling in the area.

For the Record

China has announced the appointment of Han Xu, a veteran diplomat, as its next ambassador to the United States. The change had been expected.

A prominent Afghan rebel leader, Maulvi Shafiqullah, has been killed by pro-government forces, his Pakistan-based party announced. He had commanded the guerrillas from a mountain base near Kabul. (Reuters)

Ferdinand E. Marcos said Sunday that he would seek a fourth term as president of the Philippines and predicted that he would trounce the opposition in the 1987 election by 2-1. (AFP)

Catholics, Jews Hail Improved Relationship

By E.J. Dionne Jr.

New York Times Service

ROME — A group of Roman Catholic and Jewish religious leaders has celebrated the 20th anniversary of a declaration by the Second Vatican Council that revolutionized the relationship between Catholics and Jews.

Pope John Paul II told the group Friday that the Holocaust, which so cruelly decimated the Jewish people, "was the result of an absence of faith in God," and said Catholics and Jews should join together to help restore religious faith.

The Vatican Council declaration, "Nostra Aetate," or "In Our Time," in October 1965 rejected the once widely held Christian view that the Jewish people were responsible for the death of Christ.

The pope urged Jews and Christians to help restore "a sense of God" to a secular world.

Referring to the catastrophe which so cruelly decimated the Jewish people, the pope said: "It is precisely an absence of faith in God and, as a consequence, of love and respect for our fellow men and women, which can easily bring about such disasters."

Rabbi Ronald B. Sobel, senior rabbi at Temple Emanuel-EI in New York, expressed the "particular gratification" of the Jewish people that the pope had referred in his annual Easter message to the "unparalleled inhumanity of Nazi brutality against the Jewish people."

"Together," Mr. Sobel said, "we share the conviction that bigotry and prejudice, born of hatred and nurtured in the failure to respect each other's commitments, can no longer be tolerated, not now, not anywhere, not at any time."

Last week's conference was organized by an array of groups, including the Anti-Defamation League of B'nai B'rith, in cooperation with the Vatican's Commission for Religious Relations with Judaism.

Most speakers sought to avoid controversial topics. "We meet to talk and to build," said Nathan Perlmuter, national director of the Anti-Defamation League.

But Tullia Zevi, president of the Union of Italian Jewish Communities, sharply criticized the pope in a session on Thursday for meeting on April 10 with a delegation of far-right members of the European Parliament.

The delegation included Jean-Marie Le Pen, the leader of the National Front in France, whom Mrs. Zevi called "that notorious French xenophobe and anti-Semite."

Mrs. Zevi said Europe was facing "a growing wave of revanchism and racism and attempts to negate the Holocaust."

She said she wondered whether Pope John XXIII, who called the Second Vatican Council, would have chosen such a time "to meet 16 European parliamentarians of the extreme right."

The Vatican's spokesman denied a statement by Mr. Le Pen that the pope had offered the group encouragement in their fight against abortion and against moral "decadence" in Europe.

One Vatican official said privately that the pope had not intended to express any support for Mr. Le Pen's movement or the other far-right groups. Several Vatican officials said the pope was not fully aware in advance that the meeting was to take place.

After Hoxha's Death, Albanians in Yugoslavia Watch and Wait

By Michael T. Kaufman

New York Times Service

PRISTINA, Yugoslavia — As Enver Hoxha, Albania's Stalinist leader, was buried last week in Tirana, the Albanians who form a large majority in the Yugoslav province of Kosovo neither mourned publicly nor vented any of their clearly mounting nationalistic feelings.

Some in the towns that can receive Tirana television watched as the Albanian leader's closed coffin was carried behind a jeep in a ceremony patterned after Stalin's funeral. Some listened to the orations on Tirana radio, which usually intersperses some sophisticated cultural programming with music, including a song called "Forty Years of Building Socialism in the Countryside."

But despite assertions from émigré groups in the West, there were no student demonstrations in this fast-rising city, where bank buildings tower over old minarets and cast shadows over an Oriental market. No new graffiti appeared in this Kosovo province city, 150 miles (240 kilometers) south of Belgrade, to extol Mr. Hoxha, who was 76 when he died on April 11.

And there were no cries of "Kosovo Republic," cries that have sent several hundred young people to prison, creating legions of contemporary martyrs in this society of families linked in clans.

But beneath the appearance of calm, there was evidence of deep concern. No one in authority wanted to speak to a visitor about the situation, at least not without guarantees of anonymity.

A Communist League meeting here on the day of the funeral took up the issue of Yugoslav territory that was once Albanian. And both here and in Belgrade, there is little doubt that the Kosovo problem, as it is called, is second only to the sagging economy as a national concern.

"To tell you the truth, I was surprised that things were so quiet," said Miso Kikovic, a reporter for a Belgrade newspaper who is based in Pristina.

He said that his expectations of some protest, however mild, were heightened because Mr. Hoxha's death a scant 100 miles away coincided roughly with the fourth anniversary of student riots, in which local Albanians say more than 200 people were shot to death by police. The government says only nine people were killed in the disorders, which began when university students protested over cafeteria food.

Whatever the death toll, the disorders impressed on all Yugoslavians that the growing consciousness of the ethnic Albanians, coupled with often vague political stirrings, was posing severe problems for this federation of precariously balanced national groups.

In all six republics, the largely inchoate yearnings

for a new Albanian nation straddling an international border prompted revivals of the gravest Balkan nightmare, fragmentation.

The echoes of that fear were evident in the party meeting in Pristina on the day of the funeral. As reported in the local press, speaker after speaker, Albanians and Serbs, discussed the problem of territory that was formerly Albanian. Some of the delegates to the meeting chastised local officials for failing to stem hay-burnings and gravestone topplings, which they said have accelerated the panicky flight of Serbs and Montenegrins from the region.

Although different views were expressed at the meeting, the consensus endorsed the party line, which calls for a tough stance against expressions of nationalism. The party line also appeals for generous spending in Kosovo in a revenue-sharing program under which the wealthier republics invest in the province, Yugoslavia's poorest region.

The underlying assumption appears to be that money and new constructions will enhance economic integration with the rest of Yugoslavia, and that the nationalism may then subside.

This city itself stands as testimony to these policies. A huge newspaper office, towering banks and a large hotel stand in what was little more than a village a decade ago. In the center is the university, which, with

its 26,000 students, is the third largest in Yugoslavia.

One professor said that most of the students were children of peasants, who were often illiterate. Most study Albanian literature, language and history, he said. The local economy cannot absorb them, he added, and the large numbers of educated, nationalistic and unemployed youth would be a combustible mixture even if there were no nation across the border that could play on these frustrations.

None of the young people encountered in Pristina's coffee houses appeared to have any sympathy for the government of Mr. Hoxha or for his successor, Ramiz Alia.

"We know there is no freedom there," a young man said, "that the churches and mosques have been shut and that perhaps 60,000 people have been killed. But we also know that the people there are our brothers. Like us, they are Albanians."

Cultural issues tend to dominate over economic expectations.

"You have to understand," said Idris Ajeti, the director of Kosovo's Institute of Albanian Studies, "the Albanians are a very old people with roots to the ancient Illyrians. But in modern terms, they are a young nation. Only since the Second World War are we experiencing the rebirth that other European nations went through in the 19th century."

Anti-Stalin Views of Gorbachev Reported

Reuters

VIENNA — A Czechoslovak who describes himself as a college friend of Mikhail S. Gorbachev says the Soviet leader was a student critic of Stalinism.

Zdenek Mlynar, a former Czechoslovak Communist Party official now living in Vienna, said he was a friend of Mr. Gorbachev

in Moscow in the 1950s when they were law students.

"We were more than just colleagues, we were also good friends," Mr. Mlynar wrote in two articles published Saturday and Sunday in the Vienna daily newspaper Kurier.

He recalled how the young Mr. Gorbachev had rejected the Stalin-

ist teaching that those who deviated from the official party line were "enemies of the party" who must be liquidated.

Mr. Mlynar quoted Mr. Gorbachev as saying: "Lenin did not arrest Martov," a reference to one of his Menshevik opponents. "Such views are no longer considered heretical

in the Soviet Union but were seldom heard in 1952, Mr. Mlynar said.

"It was even more unusual to express such thoughts to a foreigner," he added.

Mr. Mlynar says the former classmates at Moscow State University last met in 1967 in Stavropol, Mr. Gorbachev's hometown, three years after the fall of Khrushchev.

"He told me he did not regret Khrushchev's departure," Mr. Mlynar said. "He criticized his impetuous, subjectivist interference in the economy and the system."

Mr. Mlynar, a leading theoretician of Czechoslovakia's short-lived "Prague spring" reformist government in 1968, which was subsequently crushed by the Russians, said he expected big changes in the Soviet Union under Mr. Gorbachev.

"Gorbachev and his generation have had enough experience of unsuccessful attempts at reform," he said.

"The experience of the new generation in the Kremlin includes the recognition that the policy of repression and the postponement of unsolved problems can no longer succeed."

Mr. Mlynar said reform "has become an inner need of the Soviet Union itself."

Bomb Damages Sicily Home

The Associated Press

PALERMO, Sicily — A bomb damaged the unoccupied vacation home of Dr. Elda Pucci, the first woman mayor of Palermo who resigned last year, police said Sunday. They said the blast Saturday night caused extensive damage and that no one had immediately claimed responsibility.



TRILATERAL MEETING — Marcelino Oreja, a former Spanish prime minister and the general secretary of the Council of Europe, speaking Sunday in Tokyo. He addressed the 16th meeting of the Trilateral Commission, a private group that discusses various international issues and may report back to government leaders.

Nonaligned Movement at 30: Attempting to Avoid 'Isms'

(Continued from Page 1)

In the years after Bandung, it also drifted off course, its own members acknowledge. In 1979, at a conference in Havana, the rift culminated in an effort by Cuba to align the group with the Soviet bloc.

Adam Malik, a former Indonesian vice president and foreign minister who died last year, described the Havana nonaligned conference, the first held in the Western Hemisphere, as a "brawl" that jolted the movement's "silent majority" — countries like Singapore, Sri Lanka, Malaysia and Indonesia. Some soul-searching followed.

"The age of 'isms' is over," said Mochtar Kusumaatmadja, Indonesia's foreign minister, in his Jakarta office recently as he made final preparations for the commemorative conference.

Thirty years ago, Mr. Mochtar said, the preoccupation of the newly emergent nations was political freedom for those still under colonial rule. Now, he said, the emphasis will be on "economic emancipation," a struggle that he said had to be waged by the developing nations themselves. He called it a "sign of backwardness" that countries with decades of political independence should still be unable to tackle economic problems.

"All we ask from the industrialized world is to give us a fair chance," he said.

Mr. Mochtar's views reflect those of President Suharto, who since taking power in Indonesia in 1966 has been concentrating on economic development at home, while keeping the country's international profile low.

By contrast, Mr. Suharto's predecessor, President Sukarno, who called the first Asia-Africa conference, made international prestige a high priority and became entangled in costly international adventures from which his critics say Indonesia took years to recover. Diplomats in Jakarta see the great effort being put into this year's Bandung commemoration as a sign that the country may be preparing to resume a larger international role.

The conference roster 30 years ago was a list of remarkable and often controversial men: Gamal

Abdel Nasser of Egypt, Jawaharlal Nehru of India, Zhou Enlai of China, Pham Van Dong of North Vietnam, U Nu of Burma and Carlos P. Romulo of the Philippines, among others.

Archbishop Makarios of Cyprus came as an observer, as did members of pro-independence groups that would one day be governments. The youngest head of a delegation was Prince Norodom Sihanouk of Cambodia, then 32 years old.

This year, as in 1955, the Chinese delegation is attracting the most attention, though for different reasons.

At the first conference, the organizers — Indonesia, along with India, Pakistan, Burma and Ceylon, now Sri Lanka — quarreled over inviting the Chinese, who six years earlier had brought Communism to Beijing, Pakistan and Ceylon.

But Indonesia did not and India argued in favor. Burma tipped the scale by threatening not to attend if China was not included.

The Chinese delegation, headed by Zhou, used the Bandung conference to forge ties with the developing nations and independence movements. The Chinese leader's speech drew the biggest crowds.

"The Bandung forum opened the doors and windows of the People's Republic of China to the outside world," H. Roeslan Abdulgani, the Indonesian organizer of the conference, wrote in his account of the event.

Since then, Pakistan and China have drawn closer. India has fought a border war with the Chinese, and Indonesia, jarred by an attempted coup in 1965 that was thought to have Beijing's support, broke off all relations with China. The use of Chinese characters is banned in Indonesia, and when any Chinese writing appears in foreign publications, even in advertising, it is inked out.

The Indonesian invitation to China this year and the decision of China's foreign minister, Wu Xueqian, to attend the commemoration were major news events in Asia. Mr. Wu will be the first official Chinese visitor to Indonesia in 18 years.

Spanish Party Expels Carrillo From Its Central Committee

(Continued from Page 1)

Communist Party from his exile in Paris until the death in 1975 of Francisco Franco.

Mr. Carrillo returned to Spain and was imprisoned, but he was later released and led the newly legalized party in making an historic break with Moscow in a 1978 national convention.

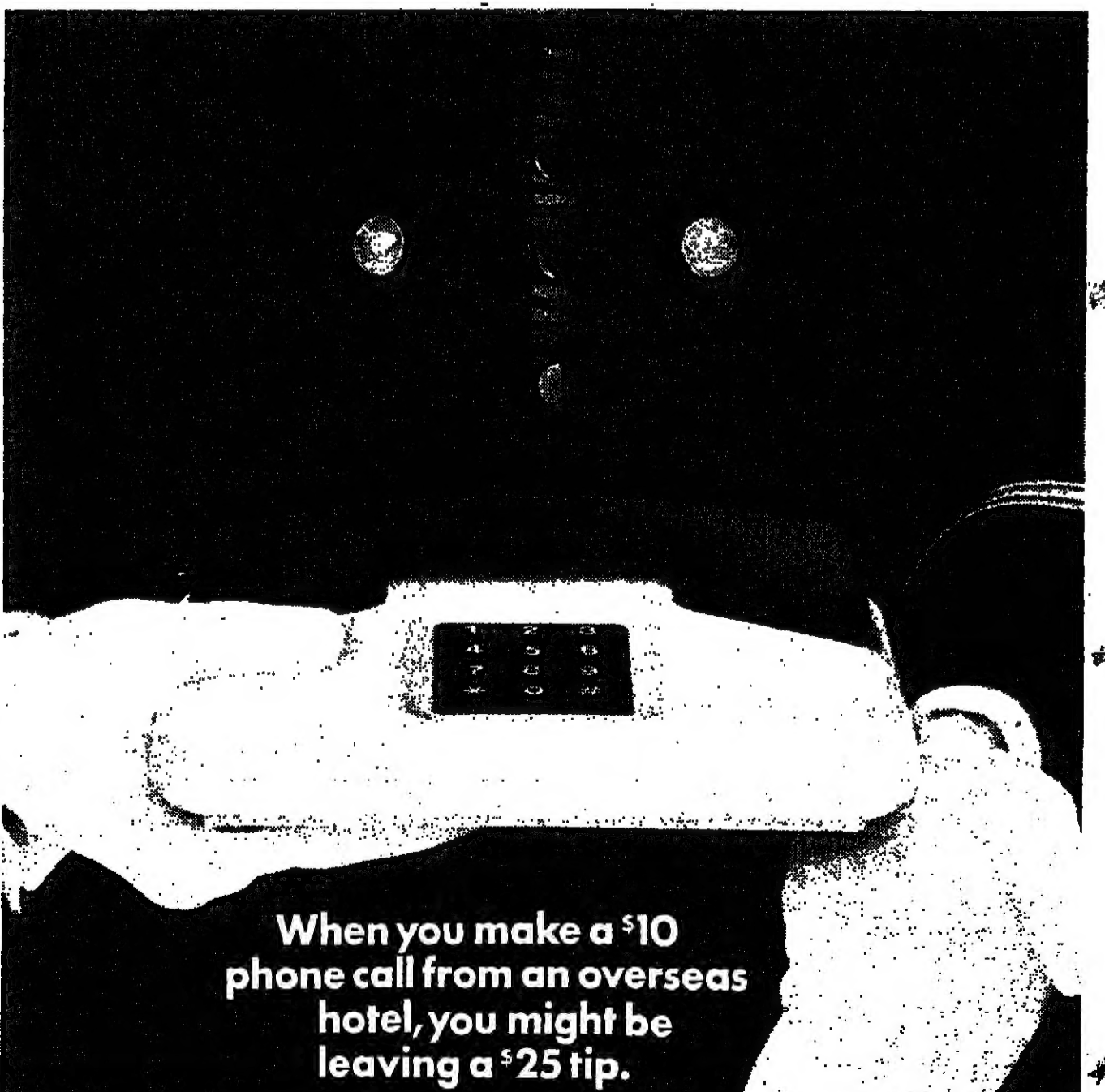
With Communist leaders in France and Italy, he started what has come to be known as Eurocommunism, a movement that accepts working by democratic rules and rejects the Soviet Union as a dictatorship.

Mr. Carrillo was forced to step down as secretary-general after the party suffered a crushing defeat in the 1982 elections, which the So-

cialists won. The Communists received less than 4 percent of the vote, down from 13 percent in municipal elections three years earlier.

It lost 19 seats in the lower house of the Spanish Parliament. Mr. Carrillo, who held one of the four remaining seats, was pushed aside last week by the party as its parliamentary leader.

Among the others expelled from the executive committee were Adolfo Finedo, secretary-general of the party in Madrid; Ignacio Latorre, secretary-general of the party in the Basque country; and Juan Villalba, secretary-general of the party in Valencia. They and Julio Perez de la Fuente, secretary-general of the party in Galicia, also were expelled from the central committee.



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AMERICAN TOPICS

Homing Signal
For Stolen Cars

A Massachusetts inventor has developed a transmitting device, about the size of a pocket transistor radio, that can be hidden in a car and will begin to emit an audible pulsing signal when activated by a police computer once the vehicle has been reported as stolen. A police car equipped with a tracking unit can pick up the signal two or three miles (about three to five kilometers) away and track it through countryside or city streets.

In 550 tests conducted by the Massachusetts State Police in the past four months they have found the hidden car every time. However, the device has yet to be used in a car that actually has been stolen by people who might try to find it out.

The inventor, William R. Reagan, hopes to market the device to car owners for about \$500 each and the tracking units to police departments for about \$2,300 apiece. When Mr. Reagan was asked his ultimate goal, Governor Michael S. Dukakis of Massachusetts, who attended a demonstration of the device, answered for him with a grin: "Eleven million cars a year coming out of Detroit equipped with this."

Scientists think that the antibiotics increasingly used in livestock feed have led to a new strain of drug-resistant bacteria that may be the cause of the outbreak of salmonella in the Middle West, according to U.S. News & World Report magazine. The food-poisoning epidemic, one of the worst in U.S. history, has been traced to contaminated milk. More than 6,000 salmonella cases have been confirmed, and there have been four deaths.

"I thought I was dead," said John M. Smith, one of the passengers aboard an American Airlines Boeing 727 when one of its three engines fell off with a loud bang over New Mexico. "I thought, 'What a terrible last meal,'" Mr. Smith added. The plane landed safely.

In Washington last year, 3.8 million people visited the Lincoln Memorial; 2.3 million, the Vietnam Veterans Memorial; 1.8 million, the Jefferson Memorial; 1.3 million, the Washington Monument; and 1.1 million, the White House.

Sign on the door of the doctors' recreation room of the Cug-



MARRIED — Cristina Ferrare, the model who was recently divorced from John Z. De Lorean, the former automaker who was acquitted on cocaine dealing charges, was married Saturday in California to Anthony Thomopoulos, president of the ABC Broadcast Group.

genheim Pavilion at the Mount Sinai Medical Center in New York: "Staph Lounge."

Notes About People

William J. Schroeder's wife has told Life magazine that if her husband — the second person to receive a permanent artificial heart — had known in advance the hardship the operation would cause his family, he might have turned it down. Margaret Schroeder said she had hoped the implant would enable her 53-year-old husband, who had been near death from congestive heart failure, "to get better and come home" to Jasper, Indiana. But after a stroke, a series of seizures and a plunging fever, she said, "I see it as more of a research experiment."

Mary Cunningham, 34, whose supposed romance with William Agee when they were both Bendix executives was the subject of a corporate world that she decided to resign, and who married Mr. Agee, 46, after both had left the company, is expecting a baby in September. The child will be the first for both of them.

Katharine Hepburn, 75, said in a rare television interview, "I drifted into acting. I think it's sort of an idiot's profession. I would've loved to have been a painter or a writer." And, she reflected: "If they don't want you anymore, they dump you. I know goddam well that's true. I've been dumped and picked up again. I would've liked a more private profession."

Banned in Boston
Triumphs Again

Once again, being "banned in Boston," where a self-appointed moral squad made the city the unofficial capital of U.S. censorship half a century ago, is spurring an obscure book toward the best-seller lists. The book, published by a small feminist and lesbian publishing company in Tallahassee, Florida, is called "Lesbian Nuns: Breaking Silence." In it are accounts of how 51 women, 42 of them former Roman Catholic nuns and nine still bound by their vows, came to grips with their lesbianism.

When the Reverend Peter Conley, spokesman for the Boston archdiocese, heard that the authors, Rosemary Curb and Nancy Manahan, were to be interviewed on a Boston television station, he wrote to the station and got the program canceled. The Boston Globe ran an article on the cancellation, news services picked up the report and the rest is history in the making.

Two national bookstore chains plan to distribute the book, the authors, both teachers, have appeared on network television and Warner Books has bought the mass-distribution paperback rights for a six-figure sum. A Warner spokesman said it will be sold in "supermarkets and drugstores and terminals all over the country."

"I'm a mouse giving birth to an elephant," said the publisher, Barbara Grier, 51. "If they wanted to kill the book, all they had to do was keep their mouths shut."

—Compiled by ARTHUR HIGBEE

U.S. Army Officers, in Survey, Criticize Themselves

By Richard Halloran
New York Times Service

WASHINGTON — The U.S. Army's officers, in a remarkably candid self-evaluation, have expressed severe criticism of themselves, the army and its senior leaders.

In a confidential army survey of its officer corps, made last fall and analyzed over the winter, half the officers who answered a long questionnaire agreed that "the bold, original, creative officer cannot survive in today's army."

A report compiled from the survey said that an even larger portion of the officers, 68 percent, agreed that "the officer corps is focused on personal gain rather than selflessness" — a virtue that military leaders cite as essential to good leadership.

In addition, nearly half the generals, who were questioned in a separate survey but whose answers were incorporated into the report, concluded that "senior army leaders behave too much like corporate executives and not enough like warriors."

And one-third of all the officers, including the generals, thought that "most officers are promoted before becoming competent at their existing grade levels," the report said.

Despite these negative views, large majorities of the officers said that they were satisfied with their duty positions, that they intended to stay in the army for a career and that fellow officers exemplified the "warrior spirit" and the "army ethic."

Large majorities also said that "the army is more than a job" and that "individual needs are secondary to army needs." Although the officers had complaints about particular elements of the army's educational and training system, they generally gave it good marks.

The survey was ordered by the army chief of staff, General John A. Wickham Jr., who said in a letter to those being queried, "Because this study will shape the future development of our officer corps, we need your candid opinions."

The state of the officer corps has been a contentious issue within and outside the army since U.S. forces

withdrew from Vietnam more than 10 years ago. Military and civilian critics have asserted that officers emphasized management over leadership and corporate values over traditional military values.

The survey report was compiled from answers to two long questionnaires. The first was sent to all 436 serving officers in the four grades of general, of whom 333 replied; the second was sent to 23,000 randomly selected officers, from colonel down to lieutenant, of whom 14,046 replied. In those six grades are 92,000 officers. No estimate of the range of sampling error was provided in the report.

The results were tabulated into a report stamped "For Official Use Only" and "Close Hold," meaning that the information in the survey was not to be disseminated widely.

The Armed Forces Journal, a monthly magazine published in Washington and specializing in military matters, obtained a copy of the survey and has prepared an article for publication in its May issue. An advance copy of the arti-

cle and the report were made available to The New York Times.

Evidently anticipating renewed criticism, the army prepared a discussion paper to accompany the report.

"We place a tremendous burden on our senior army leaders," the paper said. "We charge them to perform as statesmen, as spokesmen for their organizations, as

stewards of tremendous resources, as role models, as standard setters, as long-range planners and decision makers. In short, we demand they perform as though they were effective corporate executives."

"In time of peace, there is a blurring of the distinction between pure warrior and pure corporate executive. In both peace and across the spectrum of conflict, we expect our senior army leaders to be both."

Protest March Is Held in Washington

WASHINGTON — About 26,000 Americans paraded through Washington over the weekend to protest the U.S. nuclear arms buildup, South African racial policies and Reagan administration policies in Central America.

Simultaneous marches were held Saturday in Los Angeles and San Francisco.

Led by a black activist and former presidential candidate, the Reverend Jesse L. Jackson, the protesters marched past the White

House to the steps of the Capitol. In a fiery speech from the Capitol steps, Mr. Jackson said: "We are going to fight to free Johannesburg."

More than 80 groups took part in the "festival of protest," which is to continue for three more days so that demonstrators can lobby congressmen.

Organizers put the size of Saturday's crowd at 100,000. But police estimated it at 26,000. The crowd in San Francisco was estimated at 50,000 and in Los Angeles at 4,000.

Ex-Argentine Leaders' Trial to Open Today

By Martin Andersen
Washington Post Service

BUENOS AIRES — One of the most searing and soul-searching legal quests conducted by any society since the trials at Nuremberg after World War II is to unfold Monday as nine former top Argentine military leaders, accused of massive human rights violations, go on trial.

The nine, including three former Argentine presidents, made up the three military juntas that ruled from 1976 to mid-1982. During that time, at least 8,960 people disappeared during a military-led campaign against leftist guerrillas and other dissidents. The generals declared the campaign "war" in 1978.

Last September a commission appointed by President Raul Alfonsín found that the former military government had instituted a policy of "state terrorism" during the "dirty war" against the left.

The Argentine armed forces, it said, "responded with a terrorism infinitely worse than that it fought" because "it counted on the power and impunity of an absolute state, kidnapping, torturing and killing thousands."

The military has maintained that it was necessary to fight what it said was a threat from internationally directed Marxist guerrillas with "unconventional" methods, contending that the tactics used were like those of the United States in Vietnam and France in Algeria.

Five of the accused, including Jorge Videla and Roberto Viola, both former presidents and retired generals, are under arrest on charges of illegal detention, torture,

robbery, murder and making false statements. They could receive a maximum sentence of life in prison.

Lesser charges have been filed against four other junta members. Three of them, including former President Leopoldo Galtieri, also a retired general, are in prison awaiting trial for their role in Argentina's ill-fated 1982 invasion of the British-held Falkland Islands.

A federal prosecutor, Julio Strassera, said he would prove that the accused men either masterminded

the campaign of terror or did nothing to stop it as the top commanders of the military services.

Mr. Strassera said he would submit 709 cases of people abducted, killed, tortured, raped or robbed by Argentine security forces as evidence of what he said was "a copy of the Nazis' 'night and fog' doctrine, based on a detainee losing all contact with friends and family."

The prosecutor said he planned to call as many as 2,000 witnesses to testify in the trial, including victims, family members of missing

people, dissident military officers and several foreign dignitaries. Among those invited is Pat Derian, the U.S. assistant secretary of state for human rights during the Carter administration.

Mr. Strassera said that, while he has little direct evidence that the military ordered the disappearances, torture and theft carried out during the anti-guerrilla campaign, the circumstantial evidence against the accused is overwhelming.

"We're going to run a freight train over them," he said. The trial represents several firsts for Argentina, and it will be watched closely by neighboring countries that recently returned to civilian rule.

For the first time in Argentine history, a panel of civilian judges is to preside over a court-martial. The nine men facing trial belong to a class considered virtually immune since Argentina's first military coup put the armed forces in the center of the country's political arena in 1930.

Such fundamental changes have cheered the otherwise beleaguered officials of the 16-month-old Alfonsín government. Alarmed by a 1,000-percent annual inflation rate and the prospect of serious recession, growing numbers of Argentines are predicting that chaos will envelop the country soon or that the military will return to power.

The military and its rightist supporters have launched a vociferous campaign against the trials and against the commission that provided most of the evidence on the rights violations. They also say that the public trial is a "political circus." Moreover, some retired officers and civilian political leaders recently have questioned whether all the missing people cited by the commission are in fact dead or missing.

One retired general recently referred to the trials as a "Nuremberg in reverse," where those defeated on the battlefield now sit in judgment of a victorious army.

U.S. Emphasizes Efforts
On Namibia Settlement

New York Times Service

WASHINGTON — In assailing a plan announced by South Africa to provide some self-government to South-West Africa, the State Department has brought attention to the U.S.-led efforts to negotiate an agreement leading to the independence of the territory, which is also known as Namibia, and the withdrawal of Cuban troops from Angola.

The United States is bound by United Nations provisions calling for internationally supervised elections in South-West Africa. And it moved quickly to make clear that, as far as the Reagan administration was concerned, any internal bodies set up by South Africa would have no international standing.

Chester A. Crocker, assistant secretary of state for African affairs, who has been the main intermediary between Angola and South Africa, said at a news conference Friday that the United States had offered a plan for "an overall package agreement" to both nations in mid-March, when the two sides seemed unable to get beyond the ideas each submitted last year.

Mr. Crocker said that Angola pledged in November that when the UN resolution was put into effect, the Cuban troops would be reduced from 30,000 to 20,000 over three years, and the remaining 10,000 would be moved to northern Angola, far from the border with South-West Africa. The remaining Cubans would leave, Angola said, but it did not say when.

The South Africans, in turn, called for the withdrawal of all the Cubans within three months of letting the resolution go into effect. Mr. Crocker declined to give details about the American compromise plan, but other officials said it tried to reduce the difference in time between the South African and Angolan proposals on the Cuban withdrawal and to set a definite timetable for the pullout of the Cubans.

He said the United States had not received a reaction from either Angola or South Africa.

South Africa announced last week that it was pulling its last troops out of Angola, thereby carrying out its part of an accord reached with Angola last year.

President Pieter W. Botha said Thursday that because of the delays in reaching an international agreement, his government was creating an internal executive and legislative administration for South-West Africa that could draft a possible constitution.

Mr. Botha said, however, that South Africa still would seek an international accord.

His plan, excluded the South-

West Africa People's Organization, the guerrilla group fighting the South African military. The United Nations has said that SWAPO must play a role in any political settlement for the former German colony.

■ Mother, Infant Killed
Richard Bernstein of The New York Times reported from Cape Town, South Africa:

A colored woman and her 3-year-old son were burned to death on Saturday and her two other children seriously hurt in a mob attack near Port Elizabeth, a police spokesman said.

The woman, whose name was not disclosed, was doused with gasoline and set on fire by several youths in the black township of Botong in the eastern Cape region. Police said the black youths went to the woman's home looking for a man. When she refused to give information on his whereabouts, police said, the youths sprayed her with gasoline and then lit her.

The woman ran back into her house, setting it on fire, police said. The house fire killed the boy and seriously burned a 7-year-old son and a 6-year-old daughter.

Blast at Store in Dublin
Is Linked to Apartheid

Reuters

DUBLIN — A bomb exploded in Dunne's, a Dublin department store, in a protest by Irish republican guerrillas over the store's links with South Africa. Police said the incendiary bomb was small and caused little damage.

The Irish National Liberation Army said in a statement that the bomb was planted because of what it termed Dunne's support for apartheid. The store has been picked for nine months by 12 workers dismissed for refusing to handle South African goods.

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U.S. School Vigilantes
Investigated for Felonies

New York Times Service

FORT WORTH, Texas — A police investigation of a high school vigilante group that called itself the Legion of Doom indicates that it may have been responsible for 35 felonies, including arson and pipe bombings.

The group was made up of some of the school's top athletes and scholars who said they intended to "clean up the school, to get rid of people who were doing bad things," according to Doug Clarke, public information officer for the Fort Worth Police Department. "They claimed they were threatening thieves and dopers."

Two students and a former student of Paschal High School, rated by local educators as the city's best, have been arrested for questioning but not charged. Six other students who said they were part of the group have made voluntary statements about its activities.

The group, believed to have nine or 10 members, is suspected of "multiple pipe bombings, firebombings, possessing unlawful weapons, and a number of instances of criminal threats and cruelty to animals," Mr. Clarke said.

Mr. Clarke said there were reports that pets had been slaughtered and their blood smeared on automobiles as a warning to their owners. He said students and others received warnings marked with swastikas. Mr. Clarke said the investigation would be brought to a grand jury for indictments in May.

Police and school officials are unable to explain the violence except to say that it appeared to be the work of self-appointed vigilantes.

There have been suggestions that the group's vigilante tactics grew out of excessive zeal by some members of a group, the Ambassadors, appointed by the principal of Paschal High School, Radford Gregg, to help maintain order. The Ambassadors have been disbanded because of the controversy over the Legion of Doom. Four of the students identified as members of the Legion of Doom were also members of the Ambassadors.

The incidents began last September and culminated in a series of events in late March, when an automobile was bombed, the windows of another were shot out and a rifle was fired at a student's home.

The origin of the name Legion of Doom is obscure, Mr. Clarke said. It has sometimes been used to refer to a squad of the Paschal football team.

Among the incidents the police

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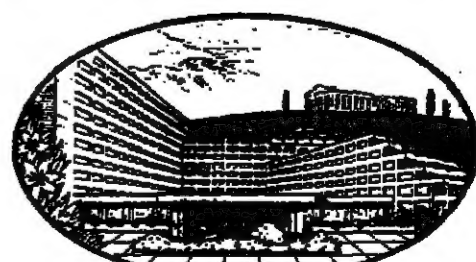
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Published With The New York Times and The Washington Post

An Honest Nicaragua Policy

President Ronald Reagan's plan for Nicaragua is in trouble. He has had to bow to Congress on aid to the "Contras," or rebels. His plan amounted to warning the Sandinists to negotiate to American satisfaction in 60 days or to face a full American commitment to support the Contras. And there is reason to believe that what Mr. Reagan was asking was not simply that the Sandinists respect their neighbors, but also that they accept an internal process leading to their fall from power. The Nicaraguans are unlikely to have accepted that. So Mr. Reagan's policy pointed to a harder military collision. Congress was right to resist it and force a postponement on aid.

But what does Congress intend to put in the Reagan policy's place? It is right to be careful about a drift toward deeper proxy intervention and perhaps direct U.S. intervention. But it is also important to be careful about a right-sounding but essentially deceptive drift toward "diplomacy." Congress, having wisely undertaken to limit the Reagan policy, may be moving unwisely toward something that is a policy in name only. Diplomacy has got to have teeth. A policy made up of enunciations—for example promising more trade if negotiations advance, and without prospective sanctions, or making no provision to restrict trade if negotiations fail—is not a serious policy.

The first need is to keep the Sandinists from subverting neighboring countries or endangering broad U.S. security interests. At the same time, the Sandinists can reasonably ask that their neighbors not facilitate intervention by the Contras. It is the purpose of the Contadora group to arrange such an exchange of obligations. It has had some success, but must work harder on key enforcement provisions.

But so long as the Sandinists and many of

their friends and enemies have the idea that the true Reagan purpose is to overthrow the Sandinists, the regional diplomacy is going to drag, and the Sandinists are going to regard any call for internal talks as a maneuver serving that larger Reagan purpose. So it is essential to create conditions that will draw the Sandinists into a political process that could have some positive results. A cease-fire would help, but two other steps are also necessary.

The president should be willing to demonstrate over time that he can live with a Sandinist government that is — let us be realistic — moving toward openness. Congress should be willing to demonstrate that it will make the Sandinists pay a price for not moving toward openness. Again, to imagine that the Marxists in Managua will head toward social democracy if only the wicked Contras are taken off their back is simply fooling oneself.

President Reagan and Congress have been engaged in a tense confrontation over the terms on which certain funds may be provided for the next five months. On both sides they were thinking too small. The deal that remains to be defined and struck entails a curtailment of presidential ambitions and an assertion of congressional responsibilities.

Mr. Reagan needs to back away from military intervention just now and agree to live with the Sandinists on fair terms. Congress should support or make possible the sanctions — cuts of trade and investment, diplomatic boycotts and other political sanctions — that would give the Sandinists a strong incentive to abide by fair terms. These at least are the fundamentals of an above-board, realistic and honest policy. They hold better promise than anything currently on the board.

—THE WASHINGTON POST.

The False Choice of Bitburg

It is finally clear how President Ronald Reagan came to his Bitburg blunder and why his defense of it grows more repugnant by the day. His perception of the planned tribute to West Germany's war dead begins and ends with a false dichotomy, expressed last week by one of Chancellor Helmut Kohl's closest aides.

"What are we?" the aide asked. "Are we primarily friends and allies, or are we primarily the children and grandchildren of the Nazis? At some point one has to decide."

"Why? Why must I decide," the president should have replied when Mr. Kohl posed the same choice last fall, no doubt more subtly.

Why are today's West Germans good friends and allies? Because some of them, and most of their fathers and some of their grandfathers, having brought the world to ruin 40 years ago, then accepted America's tutelage and generosity and made much of them. What is most admirable about the new Germany is the moral distance it has traveled from the old. To ignore the old is to leave looking as if it were the same as the new country.

But Mr. Reagan fell for the false bait. As one of his closest aides recalls him saying while planning the trip: "I don't think we ought to focus on the past, but focus on the future."

So the president decided to visit to a Nazi concentration camp, a decision changed only when the uproar arose over Bitburg. But even now, the president insists on Bitburg, *ther ally* because the chancellor is said to want it and because the president regards most of the men

buried there as also victims of the Nazi regime. Yes, many German soldiers were misled, or simply drafted, into supporting Hitler's war of conquest. But they died as combatants in battle, not as innocents, infants and elderly, in gas chambers. There can be tragedy in the death of soldiers, but who cannot distinguish between that and the systematic slaughter of millions?

Hitler himself made a further distinction that Mr. Reagan would now ignore by laying a wreath where some SS troops also lie. The soldiers who had to kill or be killed, Hitler dressed in green. But the SS who designed and ran his death camps, he dressed in black, and with the tefte insignia of crossbones. That some of these criminals lie at Bitburg is not just an awkward circumstance. It makes a tribute at their graves indecent.

When Mr. Reagan, pressed for explanations, ran out of reasons, he endowed this cemetery ceremony with strategic portent. There is no way to shift the wreath-laying out of Bitburg now, he argued, because "all it would do is leave me looking as if I caved in in the face of some unfavorable attention."

Where friends and allies are concerned, you see, presidents cannot retreat because adversaries are always taking their measure.

Good allies in Germany would relieve a president of this shameful sense of duty. But whatever they do, the president is prying strength in an ugly cause. Sometimes stubbornness is not strength, only perversity.

—THE NEW YORK TIMES.

Other Opinion

The Dangers of Newspeak

Leading guardians of the English language, the publishers of the Oxford Dictionary, got a taste of Soviet propaganda this week after Russian guardians of the state twisted a half-dozen definitions in their version of the dictionary to suit their purposes.

Predictably, a heavy dose of state-sanctioned optimism was cranked into the meaning of many heavyweight concepts, ranging from capitalism through socialism to communism. Instead of communism being defined as "a theory of society" in which all property is vested in the community, the Soviets altered the Oxford definition to "a theory revealing the historical necessity for the revolutionary replacement of capitalism by communism."

George Orwell documented the ease with which the language can be debased in "On Political Language," noting that it is "designed to make lies sound truthful and murder respectable." And John Locke observed that words "stand for nothing but the ideas in the mind of him who uses them."

But the most appropriate comment on this

latest attack on the English language ought to come from Joseph Conrad, who wrote, in "Under Western Eyes," that "words, as is well known, are the great foes of reality." In a nation where "dissem" is treason, where "psychiatric ward" can mean the gulag, where invasion of an independent country is termed comradely assistance to a government under foreign attack, you can say that again.

—The Baltimore Evening Sun.

The Slowdown Has Begun

The official U.S. estimate that the real growth of this giant economy slowed to a 1.3 percent annual rate in the first quarter of 1985 may give an exaggerated picture of the rate of the U.S. slowdown. It is an important economic, financial and political event, all the same. It poses an economic challenge to America's trading partners, for they cannot now afford the luxury of a leisurely argument over the right response to a future slowdown. The political repercussions are likely to follow quickly: a louder protectionist clamor in Congress.

—The Financial Times (London).

FROM OUR APRIL 22 PAGES, 75 AND 50 YEARS AGO

1910: Dogs Compete in Paris Show

PARIS — The annual tournament for police dogs organized by the Club National du Chien de Defense commences at the Buffalo Velodrome. This event has become of more than sporting interest, and its importance is recognized by the French Government, which is giving an official prize. In all a thousand francs will be given in prize money, and a numerous entry has been received. So many dogs have been offered, indeed, that only those with some noteworthy performance to their credit will be accepted. The tests include high and long jumping, attack, defense of the master and of the house, leading prisoners and hunting out hidden persons and things.

1935: Wartime Carrier Pigeon Dies

FORT MONMOUTH, New Jersey — Spike, a carrier pigeon that gave valiant service to the American Expeditionary Forces during the World War, died here at the loft of the Army Signal Corps. The death of Spike leaves only the battered, one-eyed Mocker, holder of the Distinguished Service Medal, of the company of pigeons which served the Army overseas. Spike was 17 years old, a year younger than Mocker. They lived together in the "war hero's coop." Spike a gray grizzle, Mocker red with white markings. With Cher Ami, carrier of the famous message of the Lost Battalion, they served with the 77th Division, and were brought back from France in April, 1919.

Reagan Displays an Orwellian Approach to Nicaragua

By Anthony Lewis

BOSTON — Corruption of the language was central to George Orwell's terrifying vision in "1984." Words had come to mean their opposite. The language of the state was Newspeak. The official slogans were War Is Peace, Freedom Is Slavery, Ignorance Is Strength.

President Ronald Reagan on the subject of Nicaragua sounds more and more like something from the pages of Orwell. His disregard for facts has become hallucinatory. His rhetoric rings with hatred.

Anyone who disagrees with his Truth is an agent of the enemy. Under the slogan of peace Mr. Reagan asked Congress to legitimize war. Before he bowed to Congress last week by agreeing to postpone his fight for military aid to the "Contras," or rebels fighting the Sandinist government, he was seeking legislation that would give him authority to support "military or paramilitary operations in Nicaragua." He was going to use the aid for arms after 60 days if the government of Nicaragua did not agree to the terms set by the rebels.

Even before last week's compromise move, Mr. Reagan said he wanted "humanitarian aid" for the rebels. But a top-secret administration memorandum to congressional appropriations committees says the real Reagan policy is to expand the rebel forces and increase their military pressure on Nicaragua. The memorandum also says that "direct application of U.S. military force" is ruled out now but "must realistically be recognized as an eventual option."

Faced with almost certain defeat in Congress on his request for aid for the rebels, Mr. Reagan was Thursday reported to be willing to accept a compromise in which such aid in the current fiscal year could only be used for "nonlethal" purposes. Details of the compromise remain sketchy and it is unclear whether a proposal on these lines could be worked out in time for Tuesday's House vote on Mr. Reagan's original request.

Mr. Reagan and his aides claimed support for his plan from Latin leaders, especially the Contadora nations. But reports from the region tell of alarm at the president's linking the idea of a cease-fire and peace talks to authority for renewed military support of the rebels. The reports also speak of a feeling among leaders that the Reagan administration manipulated them by concealing that link.

President Betanorio Betancur of Colombia, a key player in the Contadora peace effort, at first spoke favorably of the Reagan plan. Last week he said Mr. Reagan had not told him it included aid to the rebels. That, he said, made it "no longer a peace proposal but a preparation for war."

A vote against his proposal, Mr. Reagan earlier warned Congress, would be "literally a vote against peace." It would be a vote against the Contadora countries, he added. He said Pope John Paul II had urged "us to continue our efforts in Central America." But an assistant said later

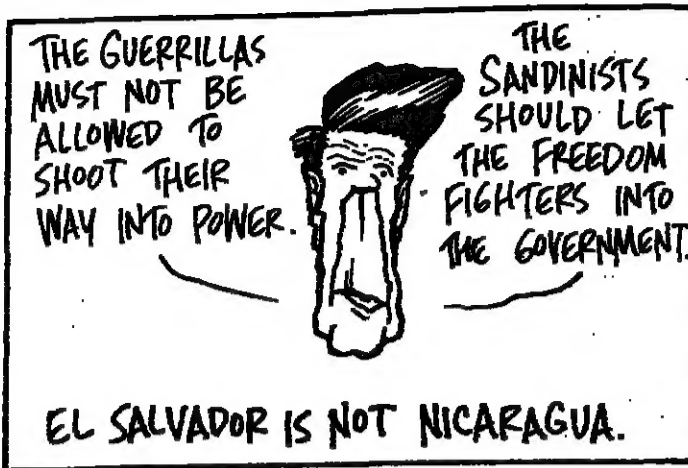
that the president had not meant to suggest papal endorsement of aid to the rebels in Nicaragua.

One of Orwell's striking images in "1984" was of the two-minute hate sessions in which citizens had to engage Mr. Reagan's comments on the Sandinists have taken on their tone. "Somoza was bad," he said last week, but "the Sandinists are infinitely worse." There are no words adequate to convey the insult that statement does to history and to the victims of 40 years of Somoza pillage. The government is "a Communist dictatorship," he said. That of a country where opposition parties hold a third of parliamentary seats. What is this in the Soviet Union?

Disregard for history is nothing new in Mr. Reagan. What other president could have thought a visit to a German cemetery including graves of SS men would be balanced by visiting a former concentration camp?

There is a special edge, a virulence, to his comments on Nicaragua. It is as if he cannot bear the complicated, ragged reality of that country today, but must have a pure Communist enemy. The end of destroying that villainous enemy then justifies any means, any tactics to pressure and frighten Congress. And so we see the president of the United States charging that the honorable lawyers and human rights specialists who meticulously traced terrorist actions by the rebels were "bought and paid for by the Sandinists." It could have been said by Joseph McCarthy.

The New York Times.



Managua: Congress Has Acted Unwisely

By George F. Will

WASHINGTON — This is the most important congressional moment since May, 1947, when Congress supported U.S. intervention through aid on the anti-Communist side in the Greek civil war. Congress thereby transformed containment from a theory into a policy.

Congress has now effectively killed aid for the anti-Communist side in Nicaragua's civil war. Congress has forbidden even modest financial support for the military effort of a mass movement prepared to die to prevent consolidation of the second Soviet satellite in the hemisphere and the first on the North American continent. The evocation of containment is complete.

What Mr. Reagan's aides are calling a compromise (aid restricted to nonmilitary uses) is a shattering defeat. He sought military support for a military movement and lost, utterly. On an issue he characterized — correctly — in the starkest moral and national-security terms, his characterization was disproportionate to his effort. He did not go to the country on television. A great communicator does not deal exclusively in good news, but also rallies majorities for hard decisions. Mr. Reagan has chosen to board his political capital — but for what remains unclear.

In 1947 President Truman told Congress: "I believe it must be the policy of the United States to support

free people who are resisting subjugation by armed minorities or by outside pressure." Mr. Reagan's policy was the Truman Doctrine after 38 years of Communist advance. An armed Nicaraguan minority, sustained by outside forces, is sovietizing Nicaragua as was being done in Eastern Europe in 1947.

The Soviet Union's Sandinist clients have no more right to rule Nicaragua than Vidkun Quisling had to rule Norway. Yet the world continues to speak of Sandinist steps toward Stalinism as "failings." The Sandinists are not somehow failing to implement democracy; those "failings" are premeditated successes.

Now that Congress has spurned the Contras, Communist dictators on four continents will know that Congress will not permit small incursions, let alone quarantine.

The sum involved is \$14 million, 12 percent of the \$117 million the U.S. government had given to the Sandinist regime by 1981. Familiar voices are saying the usual things: that the United States "drove" the Sandinists into Soviet clutches. But in their first two years, the Sandinists received more aid from the United States than from any other country — five times more than the Somoza regime received in its last two years.

During the Vietnam War, people eager to believe were encouraged by Hanoi to think that South Vietnam was experiencing an "indigenous peasant revolt" and that the ferment in Indochina was only cosmetically Communist. The Sandinists deny their U.S. protectors the comfort of that pretense. The Sandinists do not deny to disguise Stalinism at home, their "socialist solidarity" with the Soviet Union and their "revolution without borders" against neighbors.

In 1947 Congress had fresh memories of the terrible price paid because

of nonresistance to Hitler at the time of the remilitarization of the Rhineland. Today the historical memory of many members of Congress consists entirely of Vietnam and its putative lessons. But congressional management of U.S. policy toward Central America — too little aid, too late pursuit of the chimera of negotiated settlement, with a regime that does not believe in splitting differences — is a recipe for another Vietnam: another protracted failure.

Surely the Americans who should talk least about negotiated liberalization of the Sandinist regime are those Americans who, by trying to destroy the rebels, are removing the only serious pressure on the Sandinists.

Today there are anti-Communist insurgencies in Afghanistan, Angola and Cambodia. Americans opposed to the Contras favor a declaration of indifference to the only force that might enable Nicaragua to join Portugal, Spain, Turkey, Argentina and Honduras on the list of democratic nations that have risen from tyranny.

Mikhail S. Gorbachev, the Soviet leader, threatened Pakistan with reprisals if it continues to facilitate aid for the Afghan resistance. Now that Congress has spurned the Contras, how long will Pakistan resist Soviet pressure? Now that Congress will not countenance support for the Contras, the increasingly tiny voice of the United States will have decreased resonance in South Africa, the Philippines and other places where freedom is the issue at stake.

It is said that an optimist is someone who believes his future is uncertain. Optimism about democracy, and not just democracy in Central America, is irrational now that, six months after a landslide reaffirmation of a president, Congress, acting in the name of fastidiousness, has removed the keystone of that president's foreign policy: support for democratic revolutions.

Washington Post Writers Group.

Linking Third World Aid To Population Control

By Richard D. Lamm

DENVER — George Bernard Shaw observed, "All great truths begin as blasphemy." With this philosophy in mind, I put forth blasphemy: The United States should give no emergency relief to countries that are unwilling to adopt long-term economic reforms and programs to control population growth.

While it is enough to "mean well," we also must "do good." I question whether the United States, in spite of its best intentions, does good by merely giving temporary relief to Ethiopia and nations in similar circumstances. Sadly, neither America's grain bins nor its pocketbooks can keep up with the demographics of starvation, in Ethiopia or elsewhere.

There are 535 million people in Africa. If population-growth rates continue on course, the continent will add 338 million new mouths in 16 years. By the year 2020, there will be 1.2 billion people living on land that cannot adequately feed 535 million now. African farmers must feed about 20 million new mouths a year while U.S. farmers, with vastly more capital and fertile land, must feed only two million new Americans.

Productive as we are, it would be impossible for the United States to feed not only its own new citizens but the Third World's new citizens, too.

Sooner or later, Third World countries must come to grips with their population pressures. Try to write a happy scenario for Bangladesh, a poverty-stricken country with 96 million people crowded into an area the size of Iowa. The average woman has 14 pregnancies; 60 percent of the women bear seven or more children.

Or try to write a happy scenario for Egypt, which will have 60 million people to feed by the year 2000 from an agricultural land base that shrinks 600,000 acres (240,000 hectares) a year. Try to paint an acceptable picture in the Third World generally where more than 40 percent of the population under age 16 lives in poverty and grows 2 to 4 percent a year.

While the sub-Saharan African population is projected to triple in

the next 40 years, populations elsewhere in the world will burgeon, too. By the year 2000, Europe's numbers will have expanded 4.5 percent, the U.S. population by 14.5 percent, Latin America by 44.6 percent, Africa by 65.9 percent. These rates are unsustainable, even if we envision adding an international welfare load to the U.S. domestic welfare program.

Our desire to do good must be appropriately and realistically directed. If America gives short-term aid without insisting that recipient nations take long-term action to limit population and reform their economies, we merely throw gasoline on a fire. It is true that cultural and language barriers may make it difficult to convince other nations that population control must be part of the solution, that economic development will make a difference in their lives. But if we do not attempt to initiate long-term solutions, we will only perpetuate the cycle of hunger. We will only be keeping the hungry alive long enough to produce equally hungry offspring.

The late Alan Gregg, a vice president of the Rockefeller Foundation, once said that overpopulation is a cancer and that he had never heard of a cancer that was cured by feeding it.

We must insist that long-term solutions are in place before helping with short-term solutions. We must use thinking hands and bleeding hearts.

In Ethiopia, the problem is more than a temporary shortage of food. Much of the land has been denuded. Vegetation now covers 4 percent.

The United States should insist on "reciprocal altruism" in Ethiopia and elsewhere. If population growth is not brought under control, if self-reliance through economic development is not encouraged, we will multiply empty stomachs. We will have "meant well" and intended to "do good." But we will have done harm. We will have delivered a sentence of misery to future generations.

The writer is a Democrat and governor of Colorado. He contributed this comment to The New York Times.

When History Forbids a Fair Hearing

By V.W. Hughes

LOS ANGELES — It was reported here last month that there had been a search for 1,800 Eastern Europeans and 200 Ukrainians who were members of Nazi SS units in World War II. Other reports spoke of the deportation case of an accused Yugoslav war criminal, Andrija Arakovic, age 86.

It is 40 years now since the end of World War II, and the question should be raised whether it is wise and just to repeatedly open these old wounds of reported misdeeds.

There are overwhelming evidentiary problems in presenting a fair case against any of the accused after the long wait. But perhaps a greater issue, though more nebulous, is wartime conduct.

There may be a fuzzy consensus on what constitutes unacceptable conduct. Nevertheless, the behavior of men, or nations, at war cannot be measured by peacetime standards. War is homicide on a massive scale, yet we go about it appealing to the finest qualities of duty and self-sacrifice and showering accolades on he who kills the most.

We must be careful not to be too self-righteous about those we killed compared with those killed by our opponents. We were sickened at the slaughter of the noncombatant innocents — children, women and old men — in concentration camps. But have we judged our own conduct by the same standards that we have applied to the enemy's?

Dresden in Germany was acknowledged to be a city without military value. The Allies' decision to fire-bomb it was a conscious effort to convince Germany that continuing the war would be futile. Certainly Franklin D. Roosevelt, Winston Churchill and the generals who organized the raid were aware that Dresden was crowded with refugees. Yet, in less than 18 hours, 1,300 American and British bombers incinerated Dresden. Because of the influx of refugees, an accurate casualty count was not available, but estimates run from 100,000 to

135,000 dead. How many tens of thousands of blameless children, women and old men died there?

The same rationale that was applied to Dresden was used to justify wiping out Hiroshima, Japan, in one blinding flash, then Nagasaki. Again there was no opportunity for the innocents to escape. Harry S. Truman and his generals knew this.

We may justify these acts as due to the exigencies of the war, but it cannot be denied that they were

"A man that studieth revenge keeps his own wounds green, which otherwise would heal." (Bacon, Essays.)

calculated executions of many innocent lives. We should ask ourselves whether the Germans and the Japanese, had they won the war, would have found some war criminals among the Allies.

This is not intended as a moral judgment of the actions of our wartime leaders. It is simply an illustration of what man is driven to in the frenzy of war. Nor is it an effort to minimize the scale of horror inflicted by some of our former enemies. The very nature of war is horrible, and that in itself is a mitigating, though not exonerating, circumstance for the misdeeds on both sides. Those injustices were part of the war. But if Dachau was not legitimate, was Hiroshima or Dresden? The Allies won the war. Our enemies endured terrible suffering. Most of the leaders responsible are dead. What, then, is the purpose of this continuous prodding of an old injury? One cannot average the innocents who have been at peace in

their graves for 40 years. Nor can we deter the zealots and sociopaths of the future with lessons of vengeance. What kind of justice is it that must be satisfied 40 years later for misdeeds that grew out of a war involving unprecedented numbers of homicides by both sides?

It seems reasonable to draw a line somewhere on the pursuit of past wrongs. Otherwise we may be condoning acts of today's terrorists who kill in the name of atrocities that were committed generations, even centuries, ago. Should modern Europe march on Rome for what Caesar did in 49 B.C.?

President Reagan exemplified the U.S. character when he said recently that V-E Day should be celebrated as the day when "peace began, instead of reawakening the passions of (that) time." Our strongest virtues have been freedom, opportunity, generosity, humor, concern for others, a spirit of forgiveness and hope for the future. With these upbeat characteristics we are not good at sustaining a hostile attitude for very long.

And 40 years is long enough. It is time to wipe the slate clean. The United States should not be a party to the self-demeaning vindictive spirit of running down every last accused after all these years.

We may even take a lesson from a former enemy. In the last weeks of the war the Allies sent 1,000 bombers every 24 hours over Berlin. Surely, no matter which side was right, those who lived through that terrible period could hold only animosity toward those who rained such destruction on them. After the war the ruins of the ravaged city were piled into huge mounds. Now those mounds are parks. Grass, trees and flowers grow, and children play there, and the bitter memories of the bombings are assuaged.

The writer is a professor at Pasadena City College in Pasadena, California. He contributed this comment to the Los Angeles Times.

LETTERS TO THE EDITOR

Private Arms Funding

Regarding the opinion column "Foreign Policy: Set Your Own, Just 53¢" (March 28):

Maybe Ellen Goodman's suggestion that U.S. citizens should privately fund military activities abroad is not such a bad one after all. How many would support the billions going into the Middle East? Could Israel have invaded Lebanon without U.S. aid and tacit agreement to the adventure? Does the American taxpayer really condone such activities? How many would send a

check to Washington to back placement of MX missiles in Europe, let alone send a soldier to Germany? If tried the economy would boom.

GEORGE W. HAMILTON, Vietnam.

Don't Forget Dublin

Regarding the feature "Europe, Reflected in Its Public Parks" (Weekend April 12) by Paul Lewis:

The feature succeeded in omitting any mention of Dublin's Phoenix Park, immortalized by Joyce and the largest enclosed public park in Eu-

rope, while including Copenhagen's delightful Tivoli Gardens, which is not classed as a public park.

As one who visited the Tivoli last year and took 28 other councillors from London Boroughs on a conducted tour of the Phoenix Park, I must protest at what I suspect is an Anglocentric dismissal of Dublin as a European capital city.

Mr. Lewis may not be aware of it, but Dublin is one of the oldest capital cities of Europe and the Phoenix Park one of its great parks.

GERY LAWLESS, London.

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BANKING AND FINANCE IN ITALY

A SPECIAL REPORT

Page 7

Banking System Steps Up Plans To Back Deposits

By Barry Carne

ROME — Italy's banking system, despite a marked reluctance on the part of bankers, will soon be buttressed by a plan to guarantee the security of depositors' funds.

For a country where financial institutions continue to suffer from the effects of the Banco Ambrosiano collapse, the development is perhaps not surprising. But when taken along with a number of complementary trends, it signals another tentative step in the direction of dragging Italy's cumbersome, even archaic, banking structure into line with the standards and practices of most of the rest of the industrialized world.

"I wouldn't dare describe it as a wind of change," one financial analyst said, "but certainly there is a new breeze in the air."

The first attempt at a form of deposit insurance, in itself remarkable in view of Italy's recent record of bank failures, is an example of change. There are others, including the effort to create merchant-bank legislation, the rapid expansion of "near" or "para-banking" activities, the rapid growth of the new mutual funds, the refinement of a widening range of up-to-date client services and the first real effort to breathe life into the underutilized stock exchange.

Barring any last-minute setbacks, Italy's banking system should have its first official instrument for guaranteeing deposits in place within a few weeks. According to officials at the Banca d'Italia, the central bank, the plan is "in an advanced stage of preparation" and "will be finalized shortly."

Although the actual mechanics have yet to be fully disclosed, it will involve the creation of a special fund to be set up and administered as a separate entity by ABI, the Italian Banking Association. Membership, in theory, is voluntary; in practice, however, the competitive pressures on any bank that chooses to opt out, thereby depriving clients of security for their deposits, are likely to mean the widest possible participation.

Ironically, it has been the banking community that has been in the forefront of resistance to the proposal.

Unlike most of the other industrialized economies, Italy does not possess any official mechanism for guaranteeing deposits. At the same time, no depositor in the postwar years has lost funds as a result of bank failures because the government, operating through the central bank, has fulfilled a moral obligation to protect deposits in a system that is 80-percent state-owned.

From the bankers' point of view, the disagreeable element in the new plan is that it is going to be the banks alone that will finance it. The central bank's main role will be reduced to that of simply offering technical data and advice, most probably through a representative who will sit on the executive committee of the ABI-managed fund.

"There is no doubt that we need some kind of deposit guarantee but I'm not convinced that it should be the banks that have to pay for the whole thing," said Bruno Brovedani, of Banca Nazionale del Lavoro, Italy's largest bank. Whatever the drawbacks, the prime advantage of the proposal is the flexibility that it will introduce into a system so rigid that intervention in a banking crisis is not permitted until it is too late — when there is an outright insolvency. The Banco Ambrosiano affair is a case in point.

Flexibility is the key as well in the current effort to provide a legislative framework for merchant banking, a type of financial activity that is just beginning to make itself felt in Italy. The concept has taken hold since the governor of the Bank of Italy, Carlo Azeglio Ciampi, first proposed two years ago the development of merchant-banking activities to help medium-sized firms grow bigger and pave the way toward stock-exchange listing.

A number of the country's leading financial institutions engage in some form of merchant banking, providing promising small and medium-sized companies with financial services and taking a temporary stake in them with an ultimate view to launching them on the stock market. These practices are similar to those performed by the state-owned Mediobanca for large, established Italian concerns.

The business, however, is not likely to become firmly entrenched until the country's politicians act to remove the uncertainty over the future of Italian merchant banking. Several draft proposals to regulate the activity of merchant banks have been presented in parliament but, to date, there is no indication as to the precise form the legislation may take — or, more to the point, when it may finally be enacted.

Two particularly booming areas in merchant banking are in factoring and lease/purchasing. The overall turnover for factoring companies, the majority subsidiaries of the leading banks, reached \$5.26 billion last year, compared with \$3.68 billion for 1983. Lease/purchasing, according to data recently released by ABI, grew by more than 30 percent in 1984. The top 43



A close look at the board of the Milan Stock Exchange.



Bettino Craxi



A supermarket in Milan abounds with goods.

companies surveyed by ABI wrote a total of 70,870 contracts worth \$1.33 billion.

In the effort to compete, Italian banks continue to refine their client services, a move that took a giant step two years ago when the highly advanced Bancamat cash-dispenser system was introduced. Following this move, there are now plans for a national bank credit card based on the Eurocard, as well as for improving automatic bank transfers.

But the most spectacular development has been the introduction of mutual funds. Since the concept was approved late last year, close to 20 funds have been launched and it is believed that up to 30 more are in the planning stages. The mutual funds have proved highly popular among small Italian investors, who have long ranked with the Japanese

as the world's leading savers. On average, Italians save from 20 to 22 percent of their after-tax income.

According to preliminary statistics compiled by the Bank of Italy, the new mutual funds were collecting 1.5 trillion lire (\$750 million) per month during the first three months of the current year.

If the trend continues, it could greatly facilitate parallel plans to invigorate the moribund Milan stock exchange, where 90 percent of the country's market is located. At present, there are only about 160 stocks listed on the exchange, with a total capitalization of \$21 billion, compared with the 1,685 stocks worth \$1.578 trillion listed in New York.

The main problem with Milan to date has been the lack of institutional investors, a gap that a flourishing mutual-fund activity would

fill. It was with this aim in mind that the Italian Senate recently sent a committee to New York to investigate the procedures used to regulate and supervise Wall Street.

Even the optimists, however, agree that Italy has some way to go before Milan becomes a truly active bourse. Long before that, something will have to be done about the huge public deficit, which is expected to reach 96 trillion lire this year, amounting to 15 percent of the gross domestic product.

Since 95 percent of the government's deficit is financed domestically, it is almost certain that once again this year almost two-thirds of Italy's gross domestic savings are going to be consumed by the state. This does not leave much for the Italian banking system, no matter how strenuous the effort to modernize.

Economy Has a Relapse After a Healthy 1984

By Uli Schmetzer

ROME — It was a bitter winter in Italy. The severe cold damaged crop prospects, while labor and political strife hurt chances of further economic recovery. By spring, even optimists realized that after a fine performance last year, the economy was slipping back into its familiar bad habits.

Inflation has not dropped once this year below the 8.6-percent level of 1984, while price increases have averaged 1 percent a month, according to the Bank of Italy.

The huge budget deficit gallops on relentlessly in tandem with high interest rates. Labor is restless, irritated by government efforts to further weaken the *scala mobile*, the wage-indexation system devised as a cushion against inflation although often blamed for having the reverse effect.

Confindustria, the employers' association, wants concessions from trade unions on greater labor mobility and more ample wage differentials. And the Communist Party holds a time bomb with its successful call for a referendum on government limitations to the *scala mobile*. The result could be a period of labor unrest.

It was no surprise, then, that during their annual spring visit in March, officials of the International Monetary Fund diagnosed that the patient was deteriorating after undergoing a successful operation last year, when gross domestic product rose by 3 percent.

Their prescription: another front against inflation, labor costs not above the projected 7-percent inflation rate, a vigorous tax-collection campaign, cutbacks in ambitious health and pension programs and, only as a last resort, a further rise in interest rates.

But such remedies require bold and decisive government action. And with local elections coming up on May 12, the five-party coalition headed by the Socialist prime minister, Bettino Craxi, is fighting for survival with its hands tied, as each party blocks initiatives of the others, afraid to give away advantages at the polls.

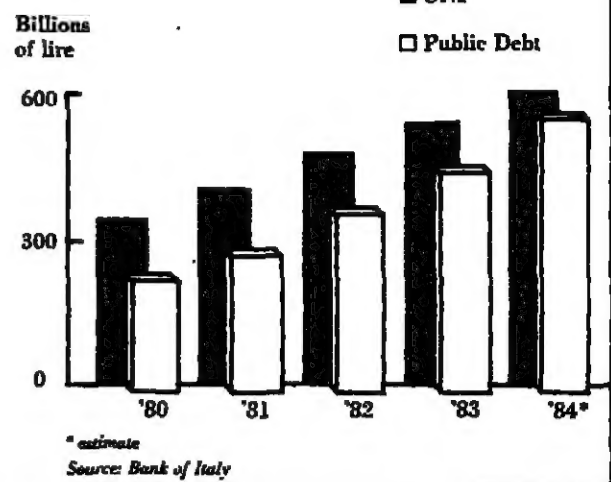
"I'm all in favor of democracy," said one of Italy's leading economists, Luigi Spaventa, "but I wish there were fewer elections."

Economists also wish the deficits would diminish. The balance of payment on current account is 5 trillion lire (\$2.5 billion) in deficit. Last year, the trade deficit reached a record 19 trillion lire.

On the other hand, the favorable dollar rate boosted exports to the United States by 69 percent, although exports to the European Community fell as the result of an appreciated lira (1.5 percent) against the currencies in the Euro-

Growing Public Debt

In 1984, government indebtedness approached 92 percent of gross national product.



pean Monetary System. The increase in exports last year (up 5.8 percent in volume compared with 3.9 percent in 1983) helped service an external debt that doubled to over \$50 billion at the time of the 1980 oil crisis.

Still, in Italy, prospects always look worse on paper than in reality. The country simply refuses to be gauged by the norms applied to other nations.

If the Italian economy continues to enjoy remarkable foreign confidence and good credit rating on the Euromarkets, it is partly due to the belief that Italians will always find a way to *arrangiarsi*, or improvise a solution. The other reason for the confidence, more tangible, is the success of private industry and, to some extent, state-run enterprises. Industry is buoyant on improved productivity, particularly in those sectors that had the courage to embark on new technology. The upswing was aided by a 4-percent increase in investments, almost all of it spent on new plant and machinery, cuts in labor costs and an aggressive marketing policy, which not only conquered new markets but also often turned losses into profits.

But pitted against the positive achievements of industry is the dead weight of the government's chronic budget deficit. It was contained at 93 trillion lire last year (15.3 percent of gross domestic product) but now is rolling into the 100-trillion lire region.

Interest payments for the debt

were 9.6 percent of GDP, double the average in the seven biggest industrial countries.

The gap between revenue and spending is plugged with public borrowing. Today, the state uses an estimated half of all personal savings to finance itself through treasury bonds. These are the most popular investments for Italians, at least while they remain convinced their government can honor them.

The state's appetite for money keeps interest rates high, which in turn makes money expensive for industry. The demand for more money by the state is prompted by the financial needs of an elephantine public sector. Although inefficient and overstuffed, it does ensure the political status quo. Tampering with its wages or numbers is not in party interests.

Rather than tackle the "privileged class," Mr. Craxi's administration, in its efforts to reduce inflation, went for the *scala mobile*, whose main beneficiaries are in the lower-income bracket and thus apt to vote for the Communists.

Still, the result seemed to justify the means: For the first time in 11 years, inflation dropped in 1984 below double figures to 8.6 percent, from 12.6 percent in 1983.

Today, however, economists think that the achievement was due more to a decline in the price of imported raw materials than to any tailoring of the wage escalator.

This assessment appears more plausible seen in the context of cur-

(Continued on Next Page)

Private Television Growth Changes the Media Scene

By Sari Gilbert

ROME — The advent of private television in Italy during the last several years has radically changed the tastes, listening habits and evening activities of millions of Italians.

With dozens of private stations flanking RAI, the three-channel state network, in most major cities, viewers are being spoiled by a range of choices unknown in many other Western countries. And much to the detriment of the Italian movie industry, people are being enticed by a rich diet of films, variety shows and American serials into spending their evenings at home, in front of the TV set.

But if this "small-screen" revolution has turned Italians into avid stay-at-home followers of "Dallas" and "Dynasty," it has also had an unprecedented effect on Italian marketing economies. During the last four years, the Italian advertising market has exploded, with total investments in TV commercials soaring from \$166.3 million at the end of 1980 to \$891 million at the end of 1984.

Most of the increase has been due to the dynamism of four stations, which, because of their de facto nationwide broadcasting range, have won the right to call themselves networks, although they still do not transmit live. These stations, through astute and imaginative programming, have become so popular that last year net advertising revenues generated by Canale 5, Italia Uno and Retequattro, all of which are now owned by Silvio Berlusconi, a Milan entrepreneur, reached over \$345 million, compared with the half-million dollars earned by Mr. Berlusconi's first local station, Tele Milano, in 1979.

Eurotv, the network owned by Calisto Tanzi, a Parma dairy producer and exporter, earned another \$70 million. All other local and private TV stations together brought in an additional \$80 million.

In contrast, RAI, which cannot exceed an advertising ceiling set yearly by parliament, earned \$220 million, about a third of its budget needs, with the rest provided by the \$350 million brought in by the viewer subscription fees charged to all Italian television owners.

The political strength of the private stations' new advertising empire was demonstrated last fall, when three magistrates in different parts of Italy ordered Mr. Berlusconi to stop broadcasting. They said the system of 80 relay transmitting stations that allowed his stations, in effect, to make nationwide broadcasts contravened a 1976 supreme court

ruling that only the state network had that right. The blackout galvanized the government, led by Prime Minister Bettino Craxi, who is believed to be a fan of Mr. Berlusconi's, into action; a six-month emergency decree legalizing the new stations was rapidly produced.

Statistics make it clear that in the four years that they have been operating at full steam, the private networks have carved out an impressive niche. According to Enrico Vergani, director of marketing for the Berlusconi group, on an average evening the three stations now capture close to 50 percent of Italy's 27 million prime-time viewers. Understandably, the current situation has de-

The situation has delighted advertising agencies and advertisers ... Less happy are those Italians who for ideological reasons oppose the consumerist slant of much advertising, as well as movie producers and newspaper publishers.

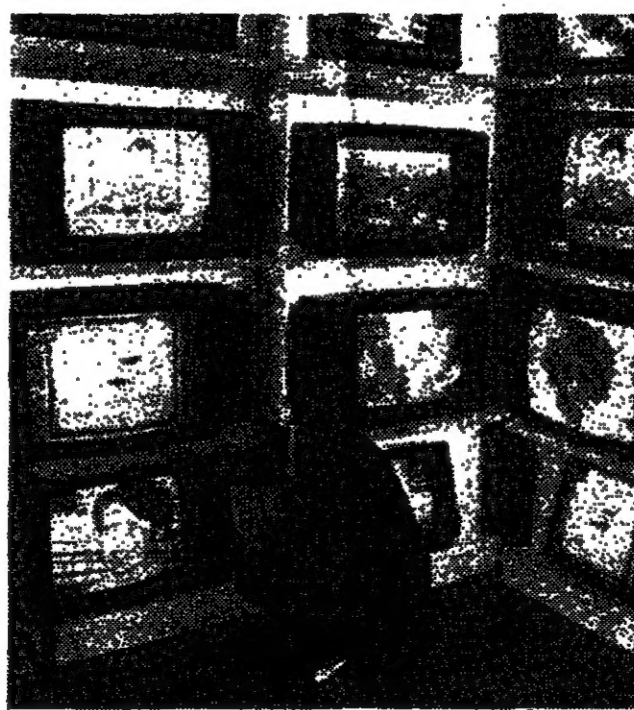
lighted advertising agencies and advertisers, who in the past were frustrated by the legal restraints that limit RAI in terms of total advertising time and ad content.

Less happy are those Italians who for ideological reasons oppose the consumerist slant of much advertising, as well as movie producers and newspaper publishers. Nowadays, more money, roughly \$70 million a year, is being spent to produce commercials than to make feature films.

Another result of the current trend is the gradual shrinking of the share of advertising going to the investment-starved Italian print media, down from about 60 percent of total advertising revenue in 1980 to just over 42 percent at present.

Originally, the RAI ceiling, which last year was set at 543 billion lire (\$271.5 million) and is expected to be increased by 7 percent for 1985, was

(Continued on Next Page)



A variety of channels to choose from.



A newsstand in Milan.

Expanding Economy Attracts Investors From Abroad

By Dalbert Hallenstein

MILAN — Italy's expanding economy is attracting a record number of foreign investors. In the past two years, 52 major foreign corporations have bought a controlling or significant interest in Italian companies, and in the last year alone at least 20 companies moved in, spending an estimated 1.5 trillion lire (\$750 million).

Yet, despite a remarkable fall in 1984 in the number of hours lost through strikes — the lowest since 1952 — and an investment return rate far above the European average, foreign companies are beginning to feel uneasy about the future. The disquiet has been caused by a Ministry of Industry proposal to impose limits on foreign investment in Italian companies, while comments in the press refer to "industrial colonization" and "a multinational takeover."

Worries of this type do not seem to have significantly stemmed the flow of foreign capital into Italy, however. Last month, the Aga Khan bought out a controlling interest in the CIGA hotel chain for at least \$80 million, and Fiat and Ford are studying cooperation that could take the form of a joint venture or a shift of capital.

The Banca Nazionale del Lavoro, Italy's largest trading bank, estimates that there are about 1,000 foreign-controlled industrial firms operating in Italy and that they employ half a million people, 7 percent of the industrial labor force.

In 1978, the number of foreign-controlled firms was fewer than 600. The 1970s were years of galloping inflation, of terrorism, of soaring wage costs and high levels of absenteeism. In the mid-1970s, the average number of work hours lost through strikes was about 125 million; last year, it was down to 40 million. There was fear, too, of the

increasing power and popularity of the Italian Communist Party. Many foreign companies decided to pull out of Italy.

By 1981, the tide was turning. Leftist terrorism appeared virtually defeated and the Communist threat was receding. The breaking of a five-week strike at the Fiat works in Turin dealt a blow to the unions and led to massive layoffs, followed up by the successful restructuring of Fiat, Olivetti and many other businesses.

"About 1981, Italy began to appear a very dynamic country," said Elido Fazi, an executive of Business International, a U.S. consultancy. "The economy was strong and somehow people abroad began finally to understand that, despite the Communists and their fluctuating successes, things in Italy do not change very much. Here, despite the seeming chaos, there is a deep-seated stability."

Besides the improving state of industrial relations, one of the main attractions for foreign companies, Mr. Fazi says, is the high rate of return on investments. According to the U.S. Department of Commerce, the rate on Italian investments in 1983 was 9.5 percent, against a European average of 4.7 percent. The highest was Ireland, with 22 percent; West Germany had 5.6 percent, Britain 3.1 percent, and France minus 1.7 percent.

The strong dollar and Italy's devaluing lira have also made the country's industries extremely attractive to foreign investors.

Other attractions include a falling inflation rate, though still comparatively high at 8.6 percent, a successful attempt by the present government to cut labor costs by modifying the wage-indexing system and an impressive rise in the rate of productivity per unit of output, which last year rose by 7 percent.

U.S. companies make up about

Foreign Investment In Italy

(in billions of lire)

	Direct	Portfolio
1980	816	1,203
1981	1,629	2,281
1982	1,464	1,312
1983	2,499	3,257

Source: Bank of Italy

40 percent of the foreign firms operating in Italy, followed by Britain with 14 percent, Switzerland 14 percent, France 13 percent, the Netherlands 5 percent, and Sweden and Belgium 5 percent each. According to a recent report by the Banca Nazionale del Lavoro, a significant part of Swiss investments in Italy consists of Italian capital that was illegally exported during the 1970s and early 1980s and is now returning.

Seventy-five percent of foreign investments are in the industrial sector, particularly in pharmaceuticals, petrochemicals, food, engineering and electronics. The rest are in the service sector, in leasing, brokerage, accountancy and software.

In some of the major foreign ventures over the past 18 months, West Germany's Allianz Insurance acquired 51 percent of RAS Insurance (Riunione Adriatica di Sicurtà) for close to 700 billion lire; AT&T of the United States bought 25 percent of Olivetti for \$260 million; Beecham (U.K.) took 83.3 percent of Zambelletti Pharmaceuticals for 100 billion lire; Dow Chemical (U.S.) acquired 90 to 99 percent of Lepetit Pharmaceuticals for 47 billion lire; Plessey (U.K.) took 33 percent of Elettrotecnica (military electronics) for 47 billion lire; Glaxo (U.K.) bought 100 per-

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A SPECIAL REPORT ON ITALY

'Scala Mobile' Escalates Labor's Identity Crisis

ROME — The Italian labor movement, traditionally a vassal of party politics, is undergoing an identity crisis.

The three major trade unions are not only split over wage negotiations but also over the need for reform in labor relations to keep pace with the rapidly changing face of Italian industry and mutations in the composition of the work force.

The issue that finally precipitated a crisis was the *scala mobile*, Italy's controversial wage "escalator."

For almost three decades the *scala mobile* was considered "untouchable." It was the pride of the trade unions, the bastion of workers' power, and neither government nor employers' group dared touch it. But during the last 14 months, the government has acted to limit the system, which was designed to protect workers against inflation.

This bold step, taken by the Socialist prime minister, Bettino Craxi, was explained by the need to curtail inflation and labor costs to make Italian products more competitive on the international market.

After a period of unusually stable labor relations, tampering with the *scala mobile* not only divided labor unions along political lines but also set the scene for yet another confrontation, pitting the Communist Party, the biggest in Western Europe, against "the rest."

Everyone took up predictable positions, even Italy's Red Brigades terrorist group. On March 27, it assassinated Enzo Taramelli, chief economic adviser to Craxi (Confederazione Italiana Sindacati Lavoratori), the trade union associated with the Christian Democrats. He was considered the architect of the project to water down the "escalator."

The assassination marked a period of unrest that began in February 1984, when Mr. Craxi's five-party coalition government, despite Communist opposition, reduced the protection of the *scala mobile* from 80 percent to 65 percent.

In effect, this left workers with 6,800 lire (\$3.40) less per month.

The Communist Party collected 1.5 million signatures to force a referendum.

In January, the constitutional court ordered that the vote be held by June this year. The great bulk of workers, already convinced they were paying for the country's economic recovery, were further alienated when the court decided that should the vote go against the government, employers had no obligation to pay back wage increases lost between the time of the limitation decree and the referendum.

By this time, the unions were deeply divided. The CISL and the Socialist's Unione Italiana del Lavoro backed the coalition government. They even agreed to a proposal that would see the *scala mobile* applied once every six months instead of the current three months.

But the Communist CGIL (Confederazione Generale Italiana del Lavoro) demanded a return to the old system and called for strikes. The referendum hangs over everyone like a Damocles sword. The government is afraid of the consequences if the vote goes against it (a foregone conclusion). The coalition unions are afraid the result will further disrupt union unity and give the Communists an undesirable advantage. And the Communists fear that their referendum will boomerang because Confindustria, the employers' association, has threatened to ignore the *scala mobile*.

At stake in the war of attrition is not so much the *scala mobile* or the unpopular and expensive referendum, but changes in labor relations.

have been eroded to a minimum. The result has been worker apathy and lack of initiative. But this is not the only issue on which Confindustria is challenging union prerogatives. The industrialists also want to choose new workers rather than having them imposed by the unions. In addition, they want the right to move workers from one city to another and the right to ask that overtime be

worked without first negotiating with the unions.

Confindustria already has indicated that it is ready to compromise on the *scala mobile* if the unions agree to its own demands. It remains adamant, however, in its refusal to cut the 40-hour working week by two hours.

The public confrontation between employers and labor is not without its renegades on both sides. They indulge in what Italians like best: their own private agreements.

This system allowed many industries to shed an average of 7 to 8 percent of their labor force, with minimal conflict, after the restructuring of plants in the investment boom of 1979-1981. But while these companies reduced their work force, statistics indicate that the number of working hours actually increased as many workers, quietly and over the heads of their unions, accepted pay-raises "bribes" tied to productivity.

"Despite the cuts in the *scala mobile*, most workers last year had an actual wage increase of 11.5 percent, mainly due to private accords," said Luigi Spaventa, an economist.

Unity on both sides is cracking. The question is who gives in first and under what terms.

— ULI SCHMETZER

How the Wage-Indexation System Works

ROME — The *scala mobile*, Italy's wage-indexation system, is calculated on the cost of living of a family of four in the country's 16 major cities.

Revised every three months, the index is based on a basket of 89 basic products, including gas, electricity, transport, clothing and 10 types of fruit.

The family of four is considered as 3.4 units. Each unit has the right to a daily ration of 3,000 calories. The husband is considered the only full unit, the wife and two children are .80 of a unit each.

The difference between two consecutive indexes are points with two decimals. (The average increase in the quarterly cost of living in Italy over the last two years has been two points.)

The first national *scala mobile* agreement was signed in 1957 by the three labor unions and Confindustria, the employers' association. But as far back as 1948, wage-indexation systems had been applied in some Italian regions to cushion workers' incomes against the effects of inflation and to assure regulated increases in wages.

The 1957 agreement fixed the

payment of one point at 1,000 lire. In a revised agreement in 1975, the price of a point was raised to 2,300 lire and in 1982 to 6,800 lire (about \$3.40), the current rate of calculation.

In the controversial decree passed by parliament in February of last year, the government decided to abolish the practice of rounding off decimal points. Instead, decimals were carried over to the next quarter. For example, if the difference between two consecutive indexes is 1.70, then only the equivalent payment of one point, or 6,800 lire, is now added to wages, the remaining .70 being carried over to the next quarter. Under the old system, the 1.70 would have been rounded off to 2 points.

The Communist trade union, Confederazione Generale Italiana del Lavoro, complains, with some justification, that the new system not only deprives workers of valuable decimals (no more rounding off), but delays by three months part of the compensatory payment.

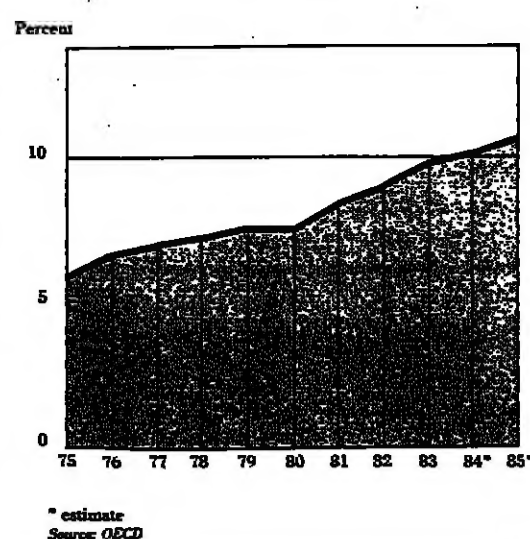
The wage "escalator" has been frequently criticized as outdated. Products in the "basket" have not changed since 1957 (except for

heating fuel replacing coal) and many products, like lard and certain types of grain, are no longer used.

Moreover, some products are kept artificially at a low cost. The

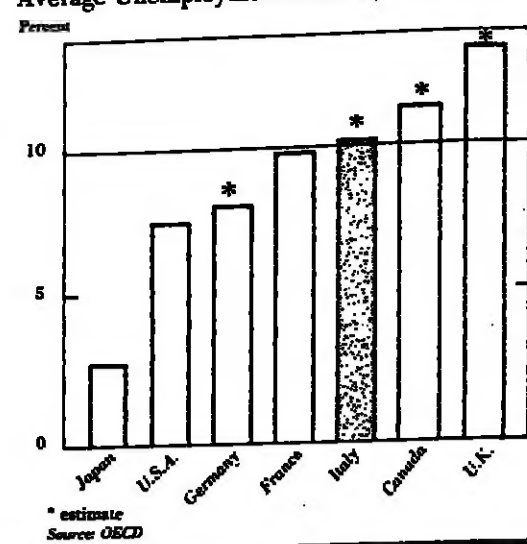
rate for cigarettes, for example, is based on the Nazionale brand, a tiny cigarette, hard to find in any store and a third the price of foreign and popular brands.

Double-Digit Unemployment



How Italy Compares

Average Unemployment Rates for 1984.



Economy Has a Relapse After a Healthy 1984

(Continued From Previous Page)

rent predictions. Despite the limitations on the *scala mobile*, experts say inflation will hit 9 percent or 10 percent and even the Bank of Italy thinks there is no chance to achieve the projected 7 percent for 1985.

At the same time, unemployment, now at 10.3 percent (2.5 million workers, not including those

laid off on state pay), is climbing and so are labor costs, a fact largely due to private "arrangements" between workers and employers.

"No doubt, the government prompted too much optimism last year," said Mr. Spaventa. "People are now beginning to look at things a little more soberly."

But just as there are two Italys, the north and the south, there are two Italian economies, one governed by Rome, the other by private industry. Both have their own modus operandi.

Attached to private industry is the "black," or submerged, economy. This phenomenon, which never shows up in official statistics, accounts for an estimated 20 percent to 30 percent of gross national product.

It is this invisible industry that often acts as a shock absorber for the system. It makes parts and components, from shoelaces, zippers and buttons, to nuts and bolts. It can be found in backyards, barns and private homes, often run by families, seldom employing more than three or four people.

It does not worry about taxes, labor laws, strikes, social security payments or, for that matter, the many directives from Rome. It simply does the job for which it was contracted.

But it does quietly absorb many of the unemployed, provides second and third jobs for many people and allows private industry to contract out pieces of its production to avoid the drain of social security payments, the problems of a fixed work force and official labor regulations.

When Finance Minister Bruno Visentini cast about for ways to replenish the depleted state coffers,

he set his sights not only on tax evaders but also on this "gypsy economy."

His campaign found instant support with the trade unions. The Socialist union, UIL (Unione Italiana del Lavoro), even put up posters that said: "I pay taxes. How about you?" UIL also did its own research and published the names and incomes of alleged tax defaulters in what was quickly criticized as "trial by union."

The Visentini tax package went into effect in January this year. It abolished income splitting among members of one family engaged in the same business and made compulsory the registration of each family member engaged in the business. It also introduced "inductive tax assessment," which gives tax inspectors new powers (and opportunities for corruption) to arbitrarily decide what an individual or business has earned if irregularities are discovered.

The measures, which were expected to extract 3 trillion lire in new revenue, might stop (or at least reduce) the ludicrous situation in which bosses claim to earn less than their workers and lawyers and doctors earn less on paper than their receptionists.

Yet it will probably not be the tax collector but the modernization of industry into homogeneous units, with computerized machinery and a minimal work force, that will make the submerged economy unnecessary.

This "black" sector would have ceased to exist long ago were it not for the flexibility and creativity of an industry that has steered with success through years of wage inflation, labor unrest, political turmoil and mounting debts, always finding a way to survive.

An example of how industry can adjust rapidly to change is Montedison, the leading chemical group, which streamlined its production, shed loss-making subsidiaries and now appears set to make profits.

The success story of the private sector has prompted the government to indulge in a little pruning of its own holdings, in tune with similar trends in Britain and West Germany.

IRI (Istituto per la Ricostruzione Industriale), Italy's largest state holding company, has jettisoned some of the less profitable of its 600 subsidiaries, which employ 4 percent of Italy's labor force, and intends to sell off part of its shares in such profit-making companies as Alitalia, the national airline.

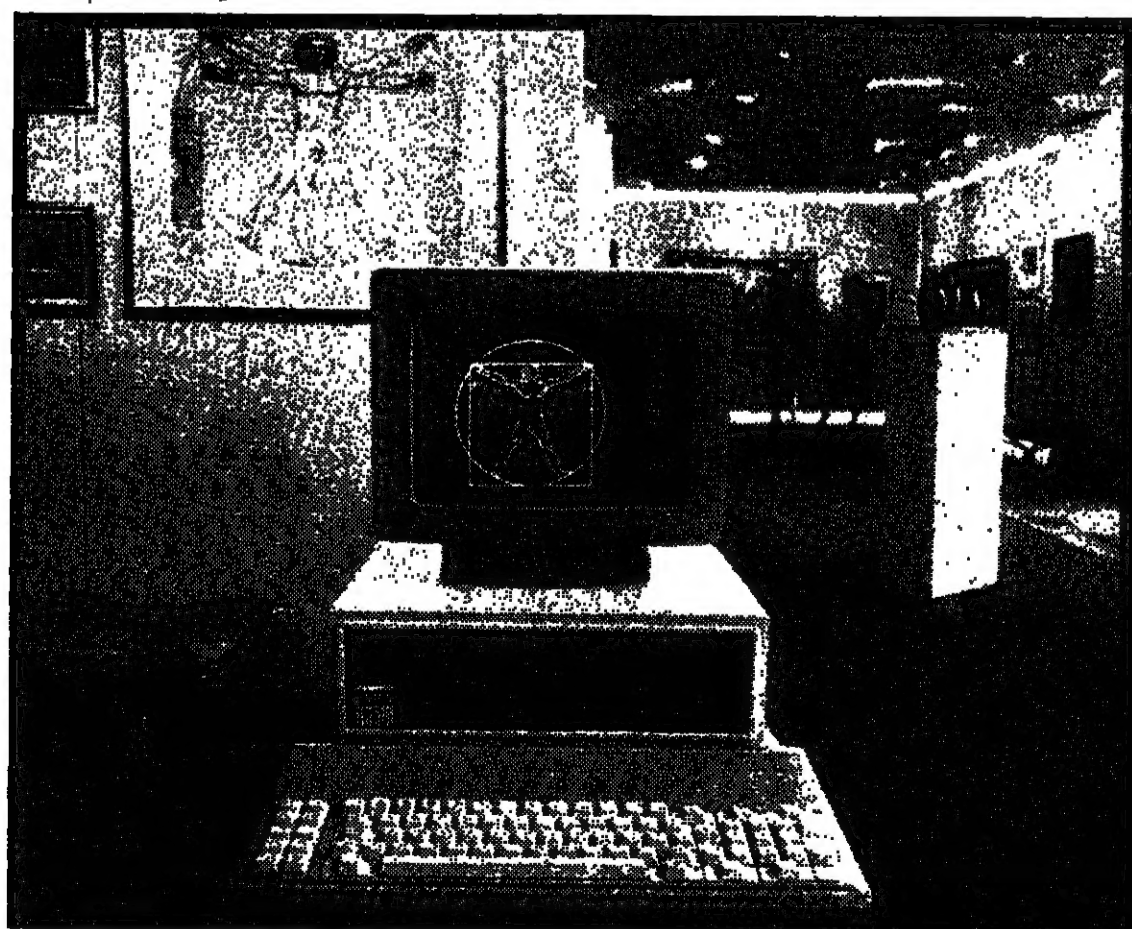
But IRI and other state holding companies like the energy conglomerate, ENI (Ente Nazionale Idrocarburi), are saddled with priorities that are often more political than industrial. They amassed losses because they were required to rescue companies without a future, for political reasons. Management changes were frequent, so were charges of corruption; badly needed development funds often found their way into party pockets.

But under determined new managers, the state industries are becoming more functional and performance-conscious. "They no longer send the lame ducks into state enterprises. Times are changing," said one economist.

Gloomy as the picture often appears on paper, nothing is ever lost in a country where private entrepreneurs show a baffling capacity to avoid the evils of an inefficient and archaic political system.

Contradictory as it may seem, in this environment the individual flourishes — and even prospers.

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With an organization of Olivetti's scope it is natural that two thirds of its annual turnover should be in sales outside Italy — last year the equivalent of US\$ 1540.0m out of a total of US\$ 2440.4m.

Olivetti is, like so many other distinguished, world-orientated Italian companies, a customer of Cariplo, the

Lombardy-based savings bank which is now not only a powerful financial force in Italy, but is becoming increasingly involved in corporate banking around the world, and expanding its resources with clients like Olivetti.

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CARIPLO
CASSA DI RISPARMIO DELLE PROVINCE LOMBARDE

Encouraging enterprise internationally

Economy Is Attracting Investors From Abroad

(Continued From Previous Page)

cent of Italcem Pharmaceuticals for 21 billion lire, and Electrolux (Sweden) acquired 49 percent (plus debentures) of Zanussi domestic appliances for 300 billion lire.

About half of the companies taken over by foreign investors were already in bad financial shape. The acquisition by Electrolux of the ailing appliance maker, Zanussi, once the pride of Italy's surging "economic miracle" of the 1950s and early 1960s, caused widespread concern in union and political circles. Sixty percent of Italy's pharmaceutical sector (Italy is the fifth largest pharmaceutical market in the world) is now controlled by foreign companies, and many of the small and medium-sized high-tech companies that abound in northern Italy are being bought out by foreign companies. Although these companies are competitive and structurally sound, they are often beset with financial difficulties due to the high cost of money and the weakness of Italy's stock market.

Politicians of both the left and center are beginning to express alarm that in certain vital sectors, such as advanced electronics and pharmaceuticals, the multinationals are concentrating their research

abroad, endangering Italy's long-term technological development.

There is also fear that if the wave of foreign takeovers continues unchecked, more and more vital decisions on industrial strategy will tend to be made abroad, with possible negative effects for Italy. Last October, the minister of industry, Renato Altissimo, a member of Italy's small conservative Liberal Party, proposed drafting a bill to limit foreign participation in Italian companies to 30 or 40 percent.

Recently, he described his proposal as "similar to the German antitrust regulations." Another prominent politician, Franco Foschi, a Christian Democrat and head of his party's social department, recently proposed even tougher regulations.

"These are already warning signals," said Mr. Fazi of Business International, which organized a meeting of 60 of the managers of the largest foreign-controlled companies in Rome last month to discuss the problem. "The companies do take these signals seriously," he said, "but they are not unduly worried. They realize that in the Italian setting such proposals take years and years before they become law and, in the meantime, both ministers and their opinions change."

Private TV Growth Changes Media

(Continued From Previous Page)

designed largely to protect the undercapitalized Italian press. "But the advent of commercial private television has made our ceiling largely meaningless," said Giuliano Adriani, TV advertising chief for SIPRA, the state-owned advertising sales agency.

But also perturbed are those Italians who object to the extreme "crowding" of commercials on the private channels. According to the interim decree law due to expire in June, private-station advertising can now legally reach concentrations of about 20 percent (12 minutes) per viewing hour and 16 percent of weekly broadcasting time. In peak viewing times there are frequent interruptions, with as many as eight to ten 30-second spots.

The RAI statute sets an overall limit of 5 percent; currently, according to Mr. Adriani, total advertising on the state channels is only slightly more than 4 percent of total broadcast time. But competition from the private stations is such that RAI, too, has stepped up advertising, taking an unprecedented half-time break for films and interrupting lengthy variety programs and talk shows.

The result of all this is a situation

unique in Western Europe. According to statistics compiled by UPA and ANIPA, Italy's two advertisers' associations, Italian television now offers between 410,000 and 430,000 commercial spots a year.

So far, the most vocal protest has come from the Communists and some Christian Democrats who would like limits on total commercial time to be reduced further when a permanent law is put on the books. Also angry are filmmakers unaccustomed to seeing their works repeatedly interrupted by ads for toilet paper and detergents. Lawmakers have been brought by directors such as Federico Fellini, Ettore Scola, Luigi Comencini, Francesco Rosi and Lina Wertmüller.

But for the time being, at least, Italian viewers appear relatively undisturbed by the advertising onslaught. According to officials at Publitalia, Mr. Berlusconi's marketing agency, they have set themselves a 1985 target of at least 1.2 trillion lire in gross advertising revenue. But they expect to reach that goal more by optimizing the use of daytime ad space, encouraging advertisers to get away from seasonal ad campaigns and using greater incentives to attract new clients than by increasing the number of commercials in prime time.

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Technology Sector Making a Comeback

By Paul Bompard

ROME — If Italy's traditional electronics industry missed the boat in the 1970s, it is more than making up for it now in the new fields that have opened up over the last 10 years.

While television and radio manufacturers have been all but crushed by West German and Far Eastern competition — and by their own inefficiency — in the more advanced areas of electronics there are Italian companies that are healthy, growing and competitive.

The old industry never recovered from the labor and overstaffing problems of the 1960s and 1970s, said Giulio Senni, of the Associazione Nazionale Industrie Elettrotecniche ed Elettroniche. "Then the government delayed for years before choosing a TV color system, finally opted for PAL [the German system] and opened the door to imports."

But if this side of the electronics industry is in bad shape, with 4,000 workers drawing unemployment benefits, in the fields of sophisticated components, telecommunications, military electronics, radar and air-traffic control and, in the case of Olivetti, in small computers and data-processing machines, business has been booming.

Much of this success has come from the state-controlled STET group of companies, partly because of a growing trend to have these companies managed by dynamic, private-style administrators on principles of efficiency rather than the old system of keeping costly, unproductive state companies alive at all costs.

One of the stars is SGS Ales of Agrate Brianza, near Milan, a producer of semiconductors.

In 1980, after years of deficit, SGS, a STET company, was put into the hands of Pasquale Pistorio, a Sicilian who left Motorola in the United States to take over the job. In five years, SGS has become Europe's third producer of silicon chips after Philips and Siemens. It is, however, first as an independent supplier.

About 83 percent of the company's products are exported, and a contract was recently signed to supply International Business Machines Corp. with components. According to Franco Morganti, of Reseau, an independent research company in the electronics field, "SGS makes bipolar integrated circuits better than anyone."

For 1984, SGS profits were 25 billion lire (\$12.5 million) on sales of 572 billion lire. It was about 50 billion lire in the red in 1982 and only just broke even in 1983.

Another thriving company of the

STET group is Itelet, specializing in equipment and systems for telecommunications. In this case, the company was turned over in 1981 to Marisa Bellisario, who came from Olivetti.

Another STET company, Selenia, is a leading producer of military electronics, equipment for air-traffic control, radar, defense systems and flight simulators. In 1984, sales rose to 579 billion lire, from 478.5 billion in 1983, and the company exported 65 percent of its products.

But the current boom is by no means restricted to state-controlled companies. The remarkable recovery of Olivetti has become one of Italy's industrial legends. In 1978, Carlo de Benedetti took over a weak manufacturer of typewriters and office equipment that seemed doomed to become an industrial failure. Since then, Olivetti has almost tripled its sales and become Europe's foremost producer of electronic-office and data-processing equipment, not to mention a competitive range of small computers.

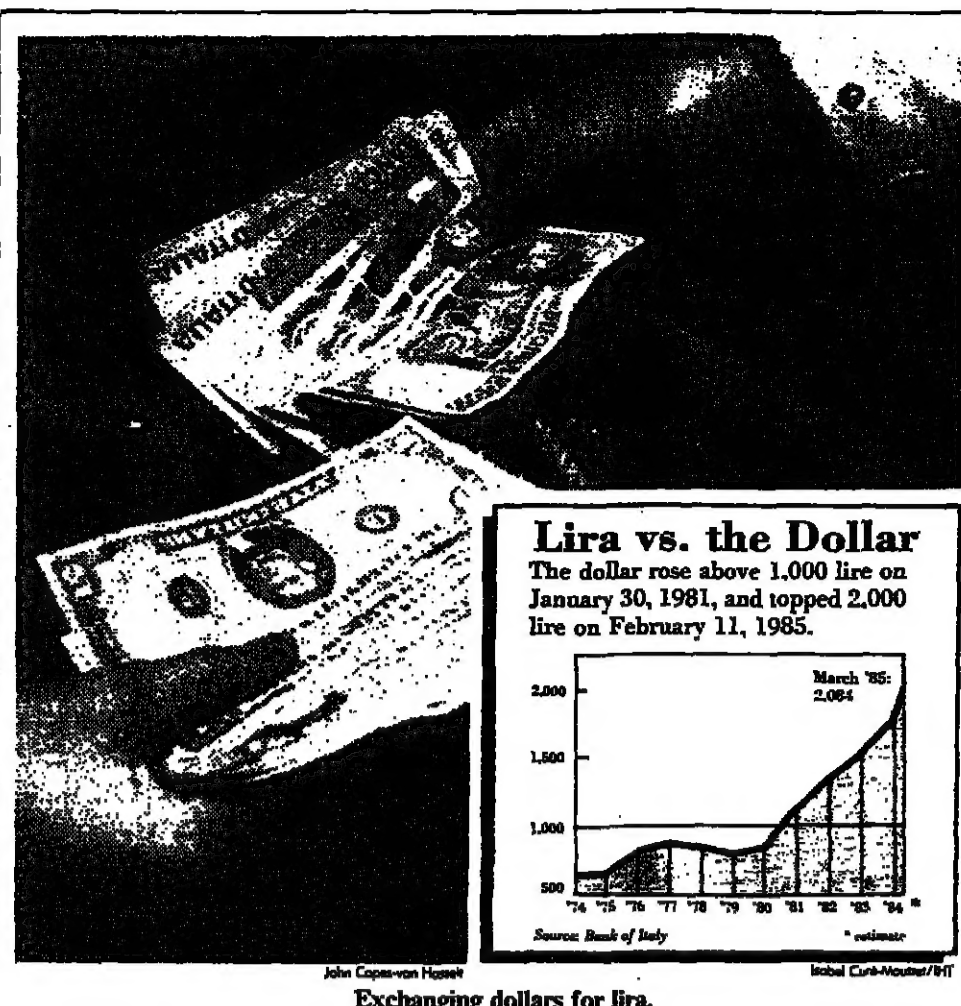
The recent sale of 25 percent of Olivetti's stock to AT&T of the United States should, through the acquisition of new technology and the opening up of the American market, make the Italian company a still more formidable international contender.

Of the medium and small private companies, many are healthy and competitive, even if they operate in limited sectors. A good example is Contraves, based just outside Rome, which produces and exports a wide range of electronic military equipment, a field in which Italian firms are traditionally active.

The area outside Rome along the Via Tiburtina has acquired the nickname of "Tiburina Valley" because of the large number of such firms that have sprung up there recently.

Today, the Italian electronics industry employs more than 300,000 people, about 80,000 in the aging traditional sector and 120,000 in the new fields. Together, they produce goods worth about 12 trillion lire, considering only what can be strictly described as electronic. Of this, roughly half is exported, but imports are about 30 percent higher, with a particularly negative balance in informatics at one end of the industry and radio and television at the other.

"The Italian electronics industry," says Mr. Morganti of Reseau, "has a number of specializations that are absolutely competitive on an international level. Where we are behind is in medium and large informatics."



Exchanging dollars for lira.

Fiat Turns Slowdown Into Speedup

ROME — "Fiat: First in Europe." The high-profile slogan, displayed in showrooms and newspaper ads, sums up the elan and confidence felt these days by officials of this giant, private Italian car manufacturer, which, despite

notable market softness throughout Europe in 1984, continued what most observers in Italy agree is a remarkable return from the edge of the grave to industrial and financial health.

The Turin-based colossus, (230,000 employees, about half of whom work in the auto sector) owned by the Agnelli family and run by a team of hard-nosed managers and technocrats under the leadership of the managing director, Cesare Romiti, currently produces 1.27 million cars a year, equal to more than 80 percent of total Italian automobile production. Improved labor relations, rationalization of production, sales and finance, and massive investments have combined to make the future bright. The current situation contrasts radically with Fiat's situation five years ago, when growing indebtedness, chronic labor strife, plummeting productivity and high

losses in the car sector plagued the company.

As the Fiat chairman, Gianni Agnelli, put it, 1984 was a "bullish" year for the company. Although demand in Europe fell by an average of 2.5 percent, Fiat Auto SpA, which today means Fiat, Lancia, Autobianchi and Ferrari, was able to substantially maintain or improve on its 1983 market shares, selling new cars to 54.3 percent of the Italians who bought them (1983, 55.4 percent) and grabbing a No. 1 spot in Europe (Spain excluded) with 13.3 percent of sales. In 1984, Fiat sold 1.5 million cars worldwide, with 930,000 of them in Italy.

Total sales by Fiat Auto SpA at the end of 1984 increased slightly to \$6.3 billion, equal to about half the revenues of the entire Fiat group. Profits for the past year, not yet released, are expected to far exceed the \$40 million registered in 1983, and with Fiat Brazil finally in the black, profits will no longer be canceled out by the South American subsidiary's losses.

Much of last year's excellent performance reflects the continuing

success of the Fiat Uno, currently the single most popular car both in Italy and in Europe as a whole. A total of 331,000 Unos were sold last year and nearly a million have been bought since the small but roomy fastback went on the market in early 1983.

But perhaps even more important at year's end was the glowing financial outlook. Although results for Iveco, the commercial-vehicle subsidiary, continued to be disappointing, the group as a whole (autos and 14 other sectors ranging from tractors and aviation to telecommunications and production systems) finished in style. Consolidated sales (net of intragroup trade) rose by some \$600 million over 1983 to reach \$11.6 billion, with the best improvement in sales performance achieved by construction machinery (27.6 percent) bio-engineering (27.4 percent) and production systems (22.6 percent).

— SARI GILBERT

Privatization Moves Cautiously Into National Industrial Sector

ROME — Privatization in Italy is proceeding at an increasing, but cautious, pace. In a country where for the past 50 years state participation in industry and banking has been a major and often successful factor, the authorities have no intention of completely dismantling state enterprises. However, there is a growing desire to privatize companies of lesser importance and to attract more private capital into the most important state-run concerns.

Opposition to privatization remains, particularly at grass-roots level, and this explains the low profile that state management seeks to maintain when privatizing a company or plant. In the provinces, a company the state defines as "marginal" is often a major source of employment. Opposition to its privatization often ranges from the unions and leftist political parties to the local bishop and conservative town councillors.

For decades, state-owned factories have been regarded as a water-tight guarantee of employment, even though they may have been incurring enormous losses. Yet, the Istituto Ricostruzione Industriale (IRI), Italy's (and Europe's) largest state-holding company, was founded in 1933 to take over banks and industries in difficulty, to restore them to financial health and eventually to sell them back to the private sector. This never happened, although the IRI has always encouraged a large presence of private capital in most of its 1,060 companies, while rigorously maintaining a controlling interest.

Italy's second-largest state holding concern, Ente Nazionale Idrocarburi (ENI), the national energy authority, was founded in 1953 and until the early 1960s both it and IRI were regarded in Italy and abroad as models of efficiency in the field of mixed state and private enterprise.

By the mid-1960s, the situation had completely changed. The state holding companies yielded to the

pressures of Italy's politicians; the appointment of top and middle-level management began to be decided on political grounds.

The results were disastrous. For although some sectors of state industry managed to remain immune to political patronage and mismanagement, others, especially in the mechanical and petrochemical sectors, began to register huge losses. Vast sums were siphoned off to finance slush funds and the political parties, and the state holding concerns were used to absorb hundreds of companies in economic difficulty to guarantee tens of thousands of jobs — and votes.

This process accelerated after 1974, reaching its high point with the creation of yet another state holding company, Ente di Gestione delle Aziende Minerarie e Metallurgiche (EGAM), the state mining and metallurgical authority. In 1976, four years after it was founded, the company went bankrupt. It was employing 33,000 people, having absorbed dozens of companies in difficulty.

The repercussions from the EGAM debacle can still be felt today, for IRI and, to a lesser extent, the energy authority, were forced to absorb EGAM's assortment of debt-ridden companies. The law that abolished EGAM allowed them, for the first time, to either liquidate companies or privatize them. This also led to the present, largely successful efforts

by both groups to clean up their management and re-acquire a strong measure of autonomy from political interference.

The politicians, too, began to change. In 1981, the Ministry of State Participation published a white paper giving guidelines to privatization. The ministry wants the state holding concerns to sell off companies in which increased efficiency and higher productivity can be achieved by private entrepreneurs. The areas earmarked for privatization are farming, textiles, clothing, cement and tourism. Certain small chemical and mechanical companies are also included.

So far, the IRI has released 50 small and medium-sized companies to the private sector, about a third of which were part of the EGAM inheritance.

ENI, with fewer marginal companies to release, has followed a policy of increasing private participation in its more successful sectors. Last July, it opened up one of its key companies, SAIPEM (marine engineering), to the private sector by offering shares worth 140 billion lire (\$70 million) on the Italian stock market.

The operation, which represented 20 percent of SAIPEM's capital, was the biggest offer to be floated on the Italian market, attracting such buyers as the pension funds of the United Nations, IBM and General Electric.

— DALBERT HALLENSTEIN

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EUROBONDS

News From U.S. Economy
Has Little Impact on Market

By CARL GEWIRTZ
International Herald Tribune

PARIS — The news from Washington last week was about as favorable for the bond market as could be hoped — a stunning slowdown in the pace of first-quarter economic growth, implying a significant easing in interest rates. This initial reading of the news fueled a powerful rally in bond prices.

But by late Friday the euphoria had been tempered by other concerns — that an already rising pace of inflation which can only be further fueled by the continued slide of the dollar will surely limit the Federal Reserve's ability to allow a significant decline in interest rates.

The broadest measure of U.S. price increases, the gross national product deflator, showed a first-quarter rise of 5.3 percent, up slightly from the 2.8 percent registered in last year's fourth quarter. This trend can only be fanned by the continuing decline in the dollar, since that means an increased cost for the price of imports which are now flooding the country and cannot instantly be turned off.

The foreign exchange market's initial reaction to the slowed pace of U.S. expansion was to sell the dollar, which fell a sharp 2 1/2 percent in the space of a few hours, and put it below the important psychological barrier of 3 Deutsche marks for the first time since late November. Since its high at the end of February, the dollar has fallen 18 percent against sterling, 14 percent against the mark and almost 6 percent against the yen.

But late Friday, the foreign exchange market — like the bond markets — took a pause, trying to evaluate the likely direction of U.S. monetary policy.

The current mood seemed to be best expressed by Albert Wajsbower, chief economist at First Boston Corp. He told a financial conference in New York that Fed policy currently appears aimed at preventing the economy from slipping into recession and as a result may even cut the discount rate, now at 8 percent.

This was reinforced by the chairman of Manufacturers Hanover Trust, who told another meeting that the prime rate of commercial banks could drop below 10 percent during the current quarter. The prime rate at most banks is now 10 1/2 percent although a small St. Louis bank cut its rate to 10 1/4 percent late Friday, possibly presaging an industry-wide move. This would be normal following the significant drop in short-term interest rates and the current sluggish demand for bank loans.

HOWEVER, Mr. Wajsbower went on to warn that the signs of a sharp slowdown are "misleading" and that the economy will pick up steam over the next two months, which will result in a renewed increase in interest rates.

The Fed itself only sowed confusion about its intentions. Early in the week it allowed the overnight cost of bank loans, the federal funds rate, which is the base from which other money-market rates are scaled up, to drop from a high of 8 1/2 to a low of 7 1/2 percent. But late Friday it pushed the rate back to 7 1/4 percent.

Was this a signal to the markets that the rate, which has hovered at around 8 1/2 percent so far this year, had dropped too far? Or was it the result of technical considerations that forced the Fed to drain reserves? Pending some clarification, traders in the bond and foreign exchange markets took to the sidelines.

The week's angst about interest and currency rates had little apparent effect on the Eurobond market. The decline in interest rates prompted dealers to mark up prices, but there was no rush of investors to buy. As a result, the increases on Eurodollar bonds failed to match the size of the gains scored in New York.

At the same time, the dollar's renewed decline failed to spark any widespread selling of Eurodollar bonds by investors looking for a safer currency.

Dealers offered a number of explanations for this apparent indifference to currency considerations. In part, they said, investors have been diversifying away from the dollar since it peaked in late February — meaning that those who felt most exposed to a decline have already shifted.

Institutional investors have no need to actually sell their holdings as they can — and have — hedged their dollar portfolios through the foreign exchange futures and options markets.

And finally, dealers note, even though the dollar has fallen

(Continued on Page 15, Col. 5)

A Further
Drop Seen
For Dollar

Analysts Fear
Inflation Rise

By Jane Seaberry
Washington Post Service

WASHINGTON — Against the backdrop of last week's plunge of the dollar to below the threshold level of 3 Deutsche marks, many economists say the currency will continue to slide in coming weeks. Much of the speculation is centered on whether it will be a gradual, orderly decline or a sharp plunge.

The dollar reached its peak in February when the British pound traded at \$1.03. Since then it has fallen 9 percent on a trade-weighted basis and is back to levels it reached in October.

"It's hard to see what would substantially reverse" the dollar's decline, said William R. Cline, senior fellow at the Institute for International Economics. "The question is whether we continue to have a stair-step adjustment."

A gradual reversal of the dollar's advance would help increase exports and benefit many domestic firms that compete with imports. But it also would result in slightly higher inflation, increased commodity prices and possibly higher interest rates, as well as further weakening economic growth.

A rapid decline by the dollar would require higher interest rates to continue attracting foreign capital to continue financing the budget deficits. That could cause a recession, analysts point out.

The dollar, which began to drop sharply in mid-March, also declined in March 1984. But that trend ended when interest rates began to rise and confidence in the reelection of President Ronald Reagan strengthened, Mr. Cline said. Those factors are missing today, he said.

"A lot depends on whether this is a real rout of the dollar," Mr. Cline said. "If this turns into a rout, interest rates would have to rise sharply for foreign currency to keep coming in" to continue to finance the trade deficit.

One factor that could offset the loss of foreign capital could be a reduction in business investment and the subsequent demand for funds, which already is appearing. Foreign capital last year provided one-seventh of gross investment in the United States, Mr. Cline said.

Economists say the decline in the dollar may already have helped the most competitive U.S. firms, and if the decline continues it will later assist weaker export industries.

Australia's Keating Leads Campaign
To Make Economy More Competitive

By Steve Lohr
New York Times Service

CANBERRA — He quit school at age 14 to become a clerk in a municipal workers union. A year later, he joined the Australian Labor Party, which is closely linked to the nation's powerful trade unions and has traditionally displayed socialist leanings on economic matters. Thereafter, he never left the Labor Party fold. His first-hand experience in the private sector doesn't go much beyond managing a rock band called the Ramrods in his youth.

Despite that unlikely background, Paul John Keating's name is mentioned with respect, even reverence, by Australian business leaders. The country's 41-year-old treasurer, known as a shrewd, sharp-tongued and ambitious politician, is the point man in the government's plan to make Australia's economy more competitive.

In late February, the government of Prime Minister Bob Hawke took a landmark step toward free markets by granting licenses to 16 foreign banks to enter the previously closed shop of Australian banking, a move that Mr. Keating spearheaded.

"We didn't have as much competition here as we should have," Mr. Keating explained recently. "Our banking industry needed an injection of innovation."

Mr. Keating, who was selected as treasurer — or finance minister — when the Labor government was voted to power in March 1983, has long believed that local banking services would be improved by the stimulus of outside players and ideas. But in Australia's parliamentary system, a broad political consensus is needed for change.

For nearly a year, Mr. Keating had pushed hard for the entry of foreign banks — in private sessions and caucus meetings of his Labor Party, often



Australian Labor Party
Paul John Keating

against much resistance from the party's left wing, which typically has opposed free-enterprise initiatives and foreign ownership of businesses in Australia.

Using a blend of persuasion and intimidation, he argued that added competition would benefit consumers and that employment would rise. His typical sermon as an evangelist for foreign-bank entry would then turn to themes assured to stir the emotions of left-wing Laborites, according to a politician familiar with Mr. Keating's performances. First, he would declare that profit margins

(Continued on Page 13, Col. 7)

AMC Reports
Loss for Quarter,
Cites Weak Sales

Compiled by Our Staff From Dispatches

SOUTHFIELD, Michigan — American Motors Corp., which is 46-percent owned by the French automaker, Renault, has reported a net loss of \$29 million for the first

Other earnings, Page 15.

three months of 1985. The company said the loss was primarily due to a weakness in its car sales.

The first-quarter loss, announced Friday, compared with a net profit of \$5.1 million, or 3 cents a share, for the same period a year ago. Sales for the quarter fell to \$919.4 million from \$1.1 billion in the same period in 1984.

AMC, the fourth-largest U.S. automaker, had posted five profitable quarters since the fourth quarter of 1983.

"This first-quarter loss is a disappointment to American Motors, its stockholders and its employees, particularly since we had just achieved five consecutive profitable quarters," said Jose J. Dedeurwaerder, AMC president.

"The continuing shift to larger

cars, the resulting competitiveness of the small-car market and the related price competition contributed primarily to our first-quarter loss," he added.

AMC, which only builds small cars and Jeeps, said Thursday it was implementing a program to cut expenses by 25 percent. It said the program would include an unspecified number of layoffs among its 6,100 employees.

Mr. Dedeurwaerder said the first-quarter loss "serves to underscore the need to broaden our market coverage with larger and more profitable products so that no single market segment swing will so directly affect our bottom line."

The AMC president said the company is only halfway through its five-year strategic plan, which includes a program to introduce new products such as a Renault sports car, new Jeep models and a new mid-sized car.

"We warned that during this period, the highs were not cause for euphoria and the lows were not cause for despair," Mr. Dedeurwaerder said. (UPI, Reuters)

The U.S. Economy: Will It Sink or Swim in 1985?
Conventional Wisdom Foretells Downturn, But Numerous Analysts Disagree

By Tom Rodburn
Los Angeles Times Service

WASHINGTON — Will the U.S. economy bounce back?

After the shock of last Thursday's report that the economy grew at an anemic 1.3-percent annual rate during the first quarter, many analysts find ominous evidence that the economy will simply drift along aimlessly — or, even worse, fall into a recession.

"The economy is fading," said Allen Sinai, chief economist at Shearson Lehman Brothers Inc. in New York. "We're on a fundamentally slower growth path. High interest rates, the trade deficit and an unbalanced fiscal and monetary policy mix are finally taking their toll."

But an unusual assortment of iconoclastic economists are forecasting a resumption of strong growth this year. Those economists, ranging from conservative monetarists to liberal Keynesians who are united only by their pessimism in predicting the recent poor performance of the economy, generally

dismiss the gloomy new conventional economic wisdom.

"Too many economists never really look at the underlying factors and just extrapolate from the latest numbers," said Michael Bazzarich, an economist at Claremont Economics Institute in Claremont, California. "It's amazing to me that we are seeing nothing but green lights out there, and everybody is so pessimistic."

The explanations for the expected revival of the economy vary, with some analysts predicting that more vigorous growth will appear this spring and others forecasting that it may be delayed.

For David Levine, chief economist at the New York investment company Sanford C. Bernstein & Co., the economy's most likely future course can be found in a close reading of economic history.

Every sustained expansion of the U.S. economy since World War II, Mr. Levine says, has gone through alternating periods of boom and sluggish growth. Once a slowdown begins, it almost invariably lasts for about six months to a year, and

there is little reason to believe the weak growth that began in 1984's third quarter is part of a different pattern.

There is a slight danger that the economy has already fallen into a brief recession, Mr. Levine believes, but he says that economic output is all but certain to begin accelerating sharply this summer.

"With the dollar beginning to fall, the trade deficit should no longer be a drag on the economy," Mr. Levine said. "Once we get that bleeding stopped and we receive a booster shot from the (buildup of business) inventories, the economy should be off to the races again."

Despite steady gains in consumer spending, the high value of the dollar has contributed to a flood of inexpensive imported goods that have diverted much of the economic gains to foreign producers. A retreat of the dollar should ease that pain and open the way for new U.S. exports to countries that have revived their economies by taking advantage of the growing U.S. market.

"People often make the mistake of thinking the economy will simply run out of gas all by itself," said Irwin L. Kellner, chief economist at Manufacturers Hanover Bank in New York. "But in fact it invariably takes a major shock to bring the economy to a halt; as long as the Federal Reserve doesn't get too worried about the growing money supply, I don't think we're going to get such a shock soon."

Mr. Bazzarich relies on monetarist arguments to explain why he believes that the economy will pick up steam again.

"The Fed has been allowing the money supply to grow at a 13-percent rate for the past eight months," he said. "We've never seen a recession in the wake of money growth figures like that."

Some economists worry that the recent spate of bleak economic reports will feed on itself.

"The economy is not fundamentally weak, and we've got plenty of room to grow," said Robert Gough, an analyst at Data Resources Inc. "But I'm worried that consumers might retrench because they fear that more bad news is ahead."

Orders in U.S.
Dropped 0.9%
In February

The Associated Press

WASHINGTON — Orders to U.S. factories for manufactured goods dropped 0.9 percent in February, a sharper decline than previously thought, according to revised figures released by the government.

The decline was the largest since a 1.3-percent drop in October. Orders had risen 0.8 percent in January.

The department originally had reported that orders for manufactured goods dropped only 0.2 percent in February.

The new figures showed that inventories grew 0.1 percent in February following a minuscule 0.03-percent increase in January. The February increase originally had been put at 0.3 percent.

Shipments of manufactured goods increased 0.3 percent following a 2.3-percent decline in January. The earlier report had said shipments dropped by 0.4 percent in February.

Unilever's Note Facility
Bears Very Thin Terms

By Carl Gewirtz
International Herald Tribune

PARIS — The long-rumored note issuance facility for Unilever finally surfaced last week after weeks of intense competitive bid-

ding by potential managers, bearing terms that were — as expected — as aggressively thin as any seen to date.

Unilever Capital Corp., a financial subsidiary of the U.S. affiliate of the British-Dutch multinational, is seeking \$500 million for seven years. This underwritten credit will be used as a backstop for the sale of commercial paper in New York or the issuance of short-term notes internationally.

The commercial paper or Euronotes will be sold on a "best efforts" basis. A tender panel made up of banks supplying the credit as well as certain merchant/investment banks can be asked to bid for notes and if the terms are not found acceptable to Unilever it can draw on the underwritten credit line.

Banks joining the transaction will earn a one-time commission of 0.3125 percent, an annual underwriting fee of 3.125 basis points (or 0.3125 percent) for the first two years, 5 basis points for the next two years and 6.375 basis points for the final three years — producing an average of 5.034 basis points.

This fee is comparable to the lowest yet seen, set earlier this year by Nestlé SA, which paid 3.125 points for a three-year facility that had an average life of only 21 months.

Interest to be paid on loan drawdowns will be set at the London interbank offered rate flat, that is bearing no margin. However, the company will pay a utilization fee of 5 basis points for drawings of up

(Continued on Page 15, Col. 1)

All these Notes have been sold. This announcement appears as a matter of record only.



Electricité de France

US\$ 300,000,000 Floating Rate Notes due 1997

with Warrants permitting Exchange of Notes for
ECU-denominated 9 3/4% Bonds due 1995

Issue Price of the Notes: 100% • Issue Price of the Warrants: US\$ 14 per Warrant

Notes and Bonds unconditionally guaranteed by

The Republic of France

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BankAmerica Capital Markets Group • Bank of Tokyo International Limited

Bankers Trust International Limited • Banque Bruxelles Lambert S.A.

Banque Indosuez • Banque Nationale de Paris

Baring Brothers & Co., Limited • Caisse des Dépôts et Consignations

Chase Manhattan Capital Markets Group • County Bank Limited

Crédit Lyonnais • Daiwa Europe Limited

Deutsche Bank Aktiengesellschaft • Dominion Securities Pittfield Limited

Dresdner Bank Aktiengesellschaft • Hambros Bank Limited

Hill Samuel & Co. Limited • IBI International Limited

Kidder, Peabody International Limited • Kreditbank International Group

ITCS International Limited • Mitsubishi Finance International Limited

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Orion Royal Bank Limited • Sumitomo Finance International

Swiss Bank Corporation International Limited • Union Bank of Switzerland (Securities) Limited

Westdeutsche Landesbank Girozentrale • Yamachi International (Europe) Limited

Last Week's Markets

All figures are as of close of trading Friday

Stock Indexes

United States	Last Wk.	Prev. Wk.	Chg%
DJ Indus.	1266.45	1265.68	+0.10%
DJ 30	155.21	155.08	+0.08%
DJ 100	155.21	155.08	+0.08%
S&P 500	155.21	155.08	+0.08%
NYSSE	155.21	155.08	+0.08%

Source: Federal Reserve Bank

Money Rates

United States	Last Wk.	Prev. Wk.	Chg%
Discount rate	8	8	0
Federal funds rate	7 1/4	7 1/4	0
Prime rate	10 1/2	10 1/2	0

Source: Federal Reserve Bank

Britain

FT 100	1299.60	1272.90	+2.10%
FT 30	980.40	964.90	+1.61%

Hong Kong

Hong Kong	1404.21	1402.18	+1.20%
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Japan

Nikkei DJ	12114.80	12080.01	+0.28%
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West Germany

Commerzbank	1221.00	1211.70	+0.75%
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Source: Jones Lang & Co. Ltd.

Currency Rates

Rate interbank rates on April 19, excluding fees.

Official fixings for Amsterdam, Brussels, Frankfurt, Milan, Paris, New York rates of 4 P.M.

	\$	DM	FF	£	Yen	S.F.	Yen
Amsterdam	3.2745	4.25	112.50	37.09	0.1771	5.18	124.00
Brussels	60.45	77.47	261.14	64.05	2.164	17.989	34.23
Frankfurt	3.2745	4.25	112.50	37.09	0.1771	5.18	124.00
London	1.2758	1.7258	5.9572	117.78	2.4464	13.301	27.515
Milan	1.04320	2.4930	8.0936	20.37	5.6048	31.71	76.55
New York	1.2758	1.7258	5.9572	117.78	2.4464	13.301	27.515
Paris	6.549	11.275	3.8565	1.9404	3.373	40.07	2.678
Tokyo	246.85	321.25	83.30	27.36	1.1385	72.80	414.57
Zurich	2.4785	3.2829	10.38	27.37	0.1201	72.80	414.57
1 ECU	0.7258	1.5816	2.2322	4.8287	1.6281	2.578	45.845
1 SDR	1.2049	0.7778	2.5947	9.1404	1.9152	3.291	60.386

Dollar Values

	U.S.	DM	FF	£	Yen	S.F.	Yen
Equity	1.51	1.67	5.81	0.69	0.0551	0.649	1.259
Australia	1.51	1.67	5.81	0.69	0.0551	0.649	1.259
Canada	1.51	1.67	5.81	0.69	0.0551	0.649	1.259
France	1.51	1.67	5.81	0.69	0.0551	0.649	1.259
Germany	1.51	1.67	5.81	0.69	0.0551	0.649	1.259
Italy	1.51	1.67	5.81	0.69	0.0551	0.649	1.259
Japan	1.51	1.67	5.81	0.69	0.0551	0.649	1.259
Netherlands	1.51	1.67	5.81	0.69	0.0551	0.649	1.259
Spain	1.51	1.67	5.81	0.69	0.0551	0.649	1.259
Sweden	1.51	1.67	5.81	0.69	0.0551	0.649	1.259
Switzerland	1.51	1.67	5.81	0.69	0.0551	0.649	1.259
U.K.	1.51	1.67	5.81	0.69	0.0551	0.649	1.259
U.S.	1.51	1.67	5.81	0.69	0.0551	0.649	1.259

1 SDR = 1.2135 U.S. dollars
(a) Commercial bank (b) Amounts needed to buy one dollar (c) Amounts needed to buy one dollar (d) Amounts needed to buy one dollar (e) Amounts needed to buy one dollar (f) Amounts needed to buy one dollar (g) Amounts needed to buy one dollar (h) Amounts needed to buy one dollar (i) Amounts needed to buy one dollar (j) Amounts needed to buy one dollar (k) Amounts needed to buy one dollar (l) Amounts needed to buy one dollar (m) Amounts needed to buy one dollar (n) Amounts needed to buy one dollar (o) Amounts needed to buy one dollar (p) Amounts needed to buy one dollar (q) Amounts needed to buy one dollar (r) Amounts needed to buy one dollar (s) Amounts needed to buy one dollar (t) Amounts needed to buy one dollar (u) Amounts needed to buy one dollar (v) Amounts needed to buy one dollar (w) Amounts needed to buy one dollar (x) Amounts needed to buy one dollar (y) Amounts needed to buy one dollar (z) Amounts needed to buy one dollar (aa) Amounts needed to buy one dollar (ab) Amounts needed to buy one dollar (ac) Amounts needed to buy one dollar (ad) Amounts needed to buy one dollar (ae) Amounts needed to buy one dollar (af) Amounts needed to buy one dollar (ag) Amounts needed to buy one dollar (ah) Amounts needed to buy one dollar (ai) Amounts needed to buy one dollar (aj) Amounts needed to buy one dollar (ak) Amounts needed to buy one dollar (al) Amounts needed to buy one dollar (am) Amounts needed to buy one dollar (an) Amounts needed to buy one dollar (ao) Amounts needed to buy one dollar (ap) Amounts needed to buy one dollar (aq) Amounts needed to buy one dollar (ar) Amounts needed to buy one dollar (as) Amounts needed to buy one dollar (at) Amounts needed to buy one dollar (au) Amounts needed to buy one dollar (av) Amounts needed to buy one dollar (aw) Amounts needed to buy one dollar (ax) Amounts needed to buy one dollar (ay) Amounts needed to buy one dollar (az) Amounts needed to buy one dollar (ba) Amounts needed to buy one dollar (bb) Amounts needed to buy one dollar (bc) Amounts needed to buy one dollar (bd) Amounts needed to buy one dollar (be) Amounts needed to buy one dollar (bf) Amounts needed to buy one dollar (bg) Amounts needed to buy one dollar (bh) Amounts needed to buy one dollar (bi) Amounts needed to buy one dollar (bj) Amounts needed to buy one dollar (bk) Amounts needed to buy one dollar (bl) Amounts needed to buy one dollar (bm) Amounts needed to buy one dollar (bn) Amounts needed to buy one dollar (bo) Amounts needed to buy one dollar (bp) Amounts needed to buy one dollar (bq) Amounts needed to buy one dollar (br) Amounts needed to buy one dollar (bs) Amounts needed to buy one dollar (bt) Amounts needed to buy one dollar (bu) Amounts needed to buy one dollar (bv) Amounts needed to buy one dollar (bw) Amounts needed to buy one dollar (bx) Amounts needed to buy one dollar (by) Amounts needed to buy one dollar (bz) Amounts needed to buy one dollar (ca) Amounts needed to buy one dollar (cb) Amounts needed to buy one dollar (cc) Amounts needed to buy one dollar (cd) Amounts needed to buy one dollar (ce) Amounts needed to buy one dollar (cf) Amounts needed to buy one dollar (cg) Amounts needed to buy one dollar (ch) Amounts needed to buy one dollar (ci) Amounts needed to buy one dollar (cj) Amounts needed to buy one

Over-the-Counter

Sales in
100s High Low Last C

(Continued from Page 10)

[illegible]**NASDAQ National Market**

Sales In	Net
100s	High Low Close

[illegible]

Keating Leads Reform Of Australian Economy

(Continued from Page 11)

First, he would declare that profit margins of Australian banks were too high, reflecting the lack of competition. Then, he would challenge the left-wing politicians — ostensibly champions of the working man — asking why they seemed to be protecting the welfare of pin-striped union-busting bankers.

To the big Australian banks, now itching to expand internationally, Mr. Keating used a different selling tactic: By letting in foreigners, the local banks should now have access to lucrative overseas markets, such as Japan, where reciprocal restrictions had kept them out.

The number of foreign banks let in was higher than anticipated. After a Labor Party conference last year, it was expected that six to eight overseas banks would be granted licenses. But in the months leading to the February announcement, Mr. Keating fought effectively to lengthen the list.

Major institutions from the United States, Japan and Western Europe, including Citibank, Bank of America, Bank of Tokyo, Industrial Bank of Japan and Barclays, were allowed in.

But some local bankers, although nominally free-market enthusiasts, worry that Mr. Keating may have gone too far. "I have always advocated that a door should be opened to foreign banks," said Robert White, managing director of Westpac Banking Corp., Australia's largest bank. "But I do not know that I ever advocated that the door locking them out should be ripped off its hinges and thrown away."

The big changes in the Australian financial system began in late 1983. Foreign exchange controls were dismantled and in December of that year, the Australian dollar was allowed to float — joining most of the other major currencies — its value to be determined by the currency markets, not by the government. In 1984, foreign exchange trading was opened to new competitors.

Mr. Keating's efforts won him the distinction of being named 1984's Finance Minister of the Year by Euromoney magazine, which cited "his courage in pushing through a whole series of measures deregulating Australia's archaic and uncompetitive financial system."

Today, Prime Minister Hawke and Mr. Keating are the leaders of the Labor Party's right wing, the dominant force in Australian politics.

Relations between the two men are close enough that in political

circles it is generally believed that Paul Keating says what Bob Hawke thinks. The prime minister, trying to keep peace within his unruly party, must be circumspect in his public pronouncements.

Mr. Keating is the man with the gloves off. In appearance and manner, he seems a bit closer to a partner in a Wall Street investment banking firm than an Australian reared in the political wilderness of Sydney. Yet he is not partial to the Australian business establishment, which is centered in Melbourne, and is, instead, closer to Australia's freewheeling, self-made men, such as Robert Holmes & Court and Rupert Murdoch.

Mr. Keating, who has a sharp tongue and uses it, is called a "head kicker" in the blunt parlance of local politics. In parliament, he once dismissed a member of the opposition as "an arrogant ant."

But some of his most biting remarks are directed at the left wing of his own party. During a recent interview, he referred to those members of the Labor Party who advocate greater central control by the government in the economy as "Neanderthal leftists."

Such talk does not sit well with the party's left wing. Moreover, the leftists charge that the party is in danger of abandoning its traditions and losing its heart.

To this criticism, Mr. Keating replies, "Having your hanky out for the poor does nothing unless there is sufficient economic growth to improve their lot."

The hallmark of the government's economic program is pragmatism. Mr. Keating stresses that he believes in incentives in most areas of economic activity because of efficiency, not philosophy.

"We are clearing away the debris of government intervention in areas where it doesn't work," Mr. Keating said. "But we're not wedded to dogma. We haven't fallen in love with Adam Smith or Milton Friedman."

In a sense, Mr. Keating's practical commitment to markets reflects a general shift to the right in Australia on economic matters — a change in thinking not only within the Labor Party but in the country as a whole.

The Hawke-Keating brand of pragmatism has worked well so far, helped by a cyclical recovery in the global economy and the end of a long drought in Australia. Since Labor took over, economic growth has surged, employment has expanded and the inflation rate has been cut in half.

Still, further changes are needed to make the Australian economy more competitive internationally. These adjustments require difficult



'We are clearing away the debris of government intervention in areas where it doesn't work. But we're not wedded to dogma.'

—Paul J. Keating

institutional and structural changes, such as altering the tax system and reforming industrial relations in the strike-ridden nation.

For decades, personal income tax rates have not been adjusted for inflation, so that now Australia has some of the highest rates in the world at comparatively modest levels of income. For example, the marginal tax rate is 60 cents on the dollar for a person with 1.8 times the average weekly earnings, or the equivalent of \$27,000 a year. Thus, the system provides a considerable incentive to avoid taxes while being a deterrent to working more for additional money.

Yet the inefficiencies of the present system also benefited certain interest groups. So it will be a still political challenge to bring wholesale reform to Australia's tax setup. A so-called tax summit meeting is scheduled for later this year, involving representatives of business, government and the unions. The reform package considered most likely to be chosen would include big cuts in income taxes, which would be offset by an indirect tax on consumption and possibly capital gains taxes.

Mr. Keating will be the key man in winning approval for tax reform. If successful, the most significant change in taxation in 40 years would be a considerable achievement.

Unocal Drafts New Plan to Bar Pickens

New York Times Service

NEW YORK — Unocal Corp. in a further move to thwart a takeover by T. Boone Pickens, says its executive committee has recommended that the company spin off a large portion of its assets into a limited partnership, much of which would be available for public sale.

The proposal, which is expected to be approved by Unocal's board, would place 45 percent of the company's domestic proven oil and gas reserves into the new partnership. The company did not disclose how much of the partnership it would hold for itself.

The public sale of units in the partnership, which is also dependent on approval by the Securities and Exchange Commission, would enlarge the company's cash position, analysts said. That might reduce the chances of a collapse in the current price of the stock if Unocal's pending defensive maneuver is successful in defeating Mr. Pickens's outstanding tender offer of \$54 a share for control of the California company, they said.

In active trading Friday, Unocal's stock closed at \$47.625, up 37 1/2 cents. The company's announcement came shortly before the close of trading on the New York Stock Exchange.

Fed Approves Chase's Purchase Of 2 Ohio Thrifts

United Press International

COLUMBUS, Ohio — The U.S. Federal Reserve Board has approved the purchase of two Ohio savings and loan associations by Chase Manhattan Bank of New York, according to Robert B. McAlister, state superintendent of savings and loans.

The Fed had approved Chase's acquisition of Mentor Savings Bank, in Mentor, and Federated Savings Bank, in Cincinnati, for a combined price of \$7.4 million, he said.

The Mentor institution is open for full service, but Federated is open only for withdrawals of up to \$1,000 per month.

Mr. McAlister said he would allow Federated to open for full service this week if the transaction is completed.

BankAmerica Acquisition
BankAmerica Corp. agreed in principle to acquire Oregon Bank and related subsidiaries from Orbanco Financial Services Corp. for \$57 million in cash, Reuters reported from San Francisco.

THE EUROPEAN COMMUNITY

Delors Hopes His U.S. Visit Will Ease Economic Tension

By Steven J. Dryden

International Herald Tribune

BRUSSELS — Jacques Delors, president of the commission of the European Community, hopes his visit to Washington this week will reduce tensions between the United States and the EC and encourage progress toward a new round of multilateral trade talks.

"I hope to come to a clarification of our respective positions" and encourage "cooperation in solving the problems of the world economy," Mr. Delors said in an interview last week.

Mr. Delors, who will meet President Ronald Reagan and several

cabinet members Tuesday and Wednesday, has a special interest in exploring the proposal by James A. Baker Jr., the Treasury secretary, for an international conference on monetary issues, aides said.

Mr. Delors praised Mr. Baker's suggestion, which was made April 12 in Paris. It has been seen as a response to the EC view that talks on monetary reform are needed along with a new round of negotiations on liberalization of trade.

"I have devoted much of my time to convincing my European colleagues and overcoming the skeptical attitude of the American administration" on the need for monetary reforms, Mr. Delors said.

OECD Eases Flow of Computer Data

Washington Post Service

PARIS — A freer international flow of computerized data is expected to result from a declaration adopted last week by the Organization for Economic Cooperation and Development at the urging of the United States.

U.S. officials said the declaration "is a first, and major, step" in assuring an open flow of information.

The basic thrust of the declaration is that the 24 OECD member governments agree to minimize any disruption of the international flow of computer data.

U.S. officials said technological

advances have made it possible to market almost any kind of service to foreign customers, including data processing, entertainment, advertising, banking, insurance and other activities. Retailers also use "transborder data" to verify credit card sales.

New communications and information technology are one element feeding the employment boom in service industries. According to the Office of the U.S. Trade Representative, the data-related job stimulus extends to manufacturing firms as well, blurring the usual lines of distinction between manufacturing and service employment.

Aides said Mr. Delors was also expected to press the community's position on several steel trade disputes with the United States. The EC has warned that U.S. efforts to restrict community steel exports could damage preparations for a new trade round.

Mr. Delors firmly rejected calls by U.S. officials for the EC to adopt the Reagan administration's free-market philosophy. But he believes the community can learn from some U.S. economic accomplishments, especially in the field of high technology and in the development of small and medium-sized businesses.

Cool Reaction Greeted French Research Plan

The proposal by France last week for European cooperation in technological research has received a chilly response from the commission.

Commission officials said they had already submitted a plan to strengthen EC technological research to community leaders before their summit last month.

"The commission believes its proposals will allow Europe to realize its technological ambitions," a commission statement said. "Unfortunately, the European Council was not able to thoroughly examine the document."

Privately, Commission sources were sharply critical of the French initiative. "It's a typical gadget the French resort to when they want to show they have Europe under control," one source said. "What does it mean?"

Some Films, TV Shows May Get Financial Aid

EC culture ministers are to consider next month a commission proposal that financial backing be given to European film and television productions. But the proposal is expected to face opposition from budget-conscious member states such as West Germany and Britain.

The idea is to help European producers compete with other national film and television industries, especially those of the United States. The commission believes that competition will intensify as more cable and satellite transmission networks begin operation.

Under the proposal, a project will receive aid only if it has at least three coproducers from different community countries. For films, the commission will give advances against receipts; for television, interest-free loans.

The commission proposal does not specify an amount of funding, but it suggests support for about 40 productions a year.

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1984 Balance Sheet Highlights (US\$ millions)*

	1984	1983
Cash and balances with banks	126	163
Other Liquid Assets	966	960
Trading & Investment Securities	167	223
Deposits with Banks and other Institutions	1,632	2,774
Overdrafts, loans and bills discounted	3,096	2,809
Other Assets	185	173
Total Assets	6,172	7,102
Contra Accounts	1,154	1,144
Total Balance Sheet	7,326	8,246
Demand, Time deposits, and other accounts including contingencies	5,640	6,538
Other Liabilities	25	85
Total Shareholders' equity	507	479
Total Liabilities and Shareholders' equity	6,172	7,102
Contra Accounts	1,154	1,144
Total Balance Sheet	7,326	8,246

*1984 KDI - US\$3,280 1983 KDI - US\$3,242

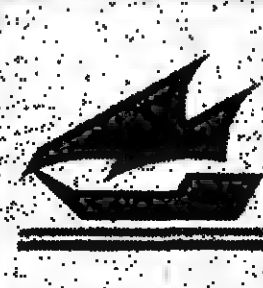
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New Eurobond Issues

Issuer	Amount (millions)	Mat.	Coup. %	Price	and week	Terms
FLOATING RATE NOTES						
Banco Latinoamericano de Exportaciones	\$50	1990	1	100	—	Over 6-month Libor, Redeemable at par in 1988. Fees 11%.
Banque Extérieure d'Algérie	\$500	2000	1/4	100	—	Over 6-month Libor, Redeemable at par in 1993, 1995 and 1997. Fees 14%.
Belgium	\$300	2005	1/4	100	99.65	Over 1-month Libor, paid quarterly, or 3/16 over 3-month Libor if the yield curve inverts. Callable at par in 1989 and redeemable at par in 2000 and 2003. Fees 0.40%. Denominations \$250,000.
Ferrovie dello Stato	\$420	1997	0.10	100	99.72	Over 1-month Libor, or 1/16 over 6-month Libor, whichever is lower. Callable at par in 1986. Fees 0.30%.
First Chicago	\$200	1992	0.10	100	99.65	Over 3-month Libor, Callable at par in 1987. Fees 1%.
Jyske Bank	\$40	1994	Libor	100	—	Interest pegged to 6-month offered rate for Eurodollars. Coupon to be set monthly except if 1-month Libor is equal to, or higher than, 6-month Libor. Callable at par in 1986. Fees 0.80%. Denominations \$250,000.
Saitama Int'l	\$100	1995	— 1/16	100	99.60	Below 6-month Libor, set monthly. Callable at par in 1986. Fees 0.45%.
FIXED-COUPON						
American Express Credit	\$100	1990	10%	99%	97.63	Noncallable.
Council of Europe	\$75	1990	11	100%	—	Noncallable.
Denmark	\$100	1990	11%	100	99.25	Noncallable.
Denmark	\$100	1989	11%	100%	99.00	Noncallable.
General Electric Credit	\$200	2000	10%	100	97.50	Callable and redeemable at par in 1989 when new terms will be set.
IBI	\$100	1995	11%	100%	98.75	Noncallable.
Matorala	\$100	1997	11%	99%	97.38	Callable at 101 in 1995.
Pacific Bell	\$100	1992	11%	100	98.00	Callable at 101 in 1990.
Royal Bank of Canada	\$100	1990	11%	102%	100.25	Noncallable. Each \$50,000 note with 1 warrant exercisable for 3 years at 101% into U.S. Treasury 11% bonds of 1990. Warrants valued at \$25 each, ended the week of \$20.
Sweden	\$200	1990	10%	100	98.55	Noncallable.
Texaco Capital	\$250	1995	11%	100	97.50	Callable at 101 in 1991.
Belgium	DM 100	1992	7%	100	—	Noncallable private placement.
Ireland	DM 150	1997	7%	100	98.75	Noncallable.
Mortgage Bank of Denmark	DM 50	1992	8%	100	—	Noncallable.
Industrial Development Corp. South Africa	DM 50	1992	8%	100	98.75	Noncallable private placement.
World Bank	DM 200	1992	7%	99%	98.75	Noncallable private placement.
Eurofima	ECU 50	1993	9%	99%	—	Callable at 101 in 1989.
Westdeutsche Landesbank Finance	ECU 70	1990	9%	99%	98.63	Noncallable. Selling fund to produce a 4.5-yr average life.
World Bank	ECU 60	1992	9%	100	99.00	Noncallable private placement.
Eurofima	DF 50	1992	7%	100	—	Noncallable private placement.
ECSC	FF 300	1992	11%	100	—	Noncallable.
WARRANTS						
Banque Paribas	0.075	1989	—	\$22	\$22	Each warrant is exercisable at 102 into a \$1,000 note of Chrysler Financial 13% of 1994.
EQUITY-LINKED						
John Finlan	\$ 3	2000	10	100	—	Each \$1,000 bond convertible into 850 company shares.
Lamha Finance	\$ 40	2000	open	100	98.13	Coupon indicated at 6%. Redeemable at 110 in 1989 and callable at 104 in 1987. Convertible at an expected 5% premium.
Nippon Oil	\$ 70	2000	3	100	98.25	Semiannually. Callable at 103 in 1990. Convertible at 92% per share and at 251.35 yen per dollar.
Nippon Sheet Glass	\$ 40	1995	3	100	—	Semiannually. Callable at 102% in 1988. Convertible at 85% yen per share.
Yamamura Glass	\$ 25	1990	open	100	98.25	Coupon indicated at 84%. Noncallable. Each \$50,000 note with one interest convertible into company's shares at an expected 25% premium. Terms to be set April 23.

Fed Dampens Hopes for Lower Rates

By Michael Quint
New York Times Service

NEW YORK — Hopes for lower interest rates were dampened but not eliminated Friday after the Federal Reserve temporarily sold securities, thereby draining funds from the banking system.

Short- and long-term rates fell modestly early in the day but began rising after the Fed's action, which came shortly before noon.

By the close of trading, Treasury bill rates were slightly higher, with the three-month issue bid at 7.80 percent, up from 7.72 percent. Note and bond yields showed little change.

Some analysts said the Fed's action was a signal to traders that the central bank was not easing policy, and was not trying to promote an overnight rate for bank loans of less than 8 percent. Others, however, said the Fed was easing policy and that the temporary sale of securities was merely a technical adjustment that would not prevent a general decline in interest rates.

In advance of Wednesday's auction of new two-year Treasury notes, government securities dealers offered the issue with a yield of about 9.79 percent, up from 9.76 percent a day earlier. The 11% percent Treasury bonds due in 2015 were offered at 100, down 2/32, to yield 11.25 percent.

Signs of economic weakness, such as the 1.3-percent growth in the gross national product after inflation, combined with a decline in the overnight rate for bank loans in the federal funds market, have led many market participants to conclude that the Federal Reserve is easing monetary policy and encouraging lower short-term interest rates.

While some analysts say the Fed will overtly signal its desire for lower rates by reducing the 8-percent discount rate it charges on loans to financial institutions, others say that the fund rate will soon rebound to around 8 1/2 percent.

Albert Wujcikowski, chief economist at First Boston Corp., said in a speech to the annual meeting of the Federal Reserve Bank of New York that the Fed would probably cut the discount rate soon. But he forecast that rates will rise again later in the year. While the Fed's generous monetary policy makes a recession unlikely, Mr. Wujcikowski added that inflation would eventually accelerate.

If recent declines in short-term rates are maintained, bankers said, the prime lending rate might be cut from its current level of 10 1/2 percent. Some bankers said that weak business loan demands might help justify a cut in the prime, and noted that Fed data for the week ended April 10 showed that business loans outstanding at large banks across the country fell by nearly \$1.8 billion.

U.S. Consumer Rates For Week Ended April 19

Postoffice Savings	5.50 %
Time Deposit	7.25 %
Money Market Funds	8.41 %
Bank Money Market Accounts	7.54 %
Home Mortgage	13.70 %

DM Futures Options April 19

Strike	Call	Put
1.20	1.20	1.20
1.25	1.25	1.25
1.30	1.30	1.30
1.35	1.35	1.35
1.40	1.40	1.40
1.45	1.45	1.45
1.50	1.50	1.50
1.55	1.55	1.55
1.60	1.60	1.60
1.65	1.65	1.65
1.70	1.70	1.70
1.75	1.75	1.75
1.80	1.80	1.80
1.85	1.85	1.85
1.90	1.90	1.90
1.95	1.95	1.95
2.00	2.00	2.00
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2.50	2.50	2.50
2.55	2.55	2.55
2.60	2.60	2.60
2.65	2.65	2.65
2.70	2.70	2.70
2.75	2.75	2.75
2.80	2.80	2.80
2.85	2.85	2.85
2.90	2.90	2.90
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3.65	3.65	3.65
3.70	3.70	3.70
3.75	3.75	3.75
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9.70	9.70	9.70
9.75	9.75	9.75
9.80	9.80	9.80
9.85	9.85	9.85
9.90	9.90	9.90
9.95	9.95	9.95
10.00	10.00	10.00

Treasury Bills

Treasury Bills			
Day	Bid	Ask	Yld
1-4	7.51	7.49	7.48
4-13	7.52	7.16	7.27
5-9	7.42	7.28	7.38
5-16	7.31	7.37	7.51
5-23	7.21	7.37	7.65
5-30	7.25	7.29	7.65
6-6	7.54	7.48	7.69
6-13	7.54	7.50	7.69
6-20	7.53	7.49	7.69
6-27	7.53	7.48	7.69
7-4	7.53	7.51	7.68
7-11	7.53	7.50	7.70

LANGUAGE

The Diplomacy Gap

By William Safire

WASHINGTON — First came plain old *diplomacy*, from the Greek word for a letter that has been folded over so that its contents cannot be readily seen.

Then came the march of modifiers, usually casting aspersions on the noun. *Dollar diplomacy* was first, in a 1910 blast by Harper's Weekly at the way President William Howard Taft's secretary of state, Philander C. Knox, was buying up politicians in Honduras.

Two years later, Taft praised the idea of "substituting dollars for bullets" in what came to be known as his "Dollar Diplomacy" speech.

Gunboat diplomacy was next, coined in 1927 to describe big-power domination of China early in the century and popularized in the 1937 "Panay incident," in which a Japanese bomber sank a U.S. gunboat on the Yangtze River. Ironically, in the case that made the phrase a household word for foreign-policy fans, the gunboat was on the receiving end of the force.

Not until 1973 did the word *diplomacy* find a new mate, and the matchmaker was Henry A. Kissinger, who, Time magazine reported in 1974, went to the Middle East "for another round of 'shuttle diplomacy.'" The presence of quotation marks around the reference suggests an earlier use, but I have not been able to find it. (The National Aeronautics and Space Administration's "space shuttle" plan was then in the news, in a phrase based on Eastern Airlines' back-and-forth intercity flights.)

That made *diplomacy* a big coinage device again, like *arama* and *nik* in their day. *Ping-pong diplomacy* described attempts to bring about the opening to China, and *media diplomacy* was applied to satellite telecasts that brought together opposing statements.

Amid all the noise, Secretary Kissinger let it be known he preferred *quiet diplomacy*, a formulation that diplomats liked because it seemed to describe action and promised results from behind-the-scenes maneuvering.

In January 1976, with Ronald Reagan trying to snatch the Republican nomination from President Gerald R. Ford, the pious-but-neutral party leader, Bryce Harlow, asked the foreign-policy analyst Richard Allen to write the

national-security section of that year's party platform.

"A strong and effective program of global public diplomacy is a vital component of U.S. foreign policy," read the document, and *public diplomacy* was taken, as intended, to be an emphasis different from the *quiet diplomacy* that led to the détente that held sway during the era of Henry the K.

"It meant a strong and effective United States Information Agency," recalls Allen now, "taking the offensive in the war of ideas against the Soviet Union." The phrase was considered more acceptable than *propaganda*, a term that has a long and honorable history concerning the propagation of the Christian faith but gained a pejorative connotation under Joseph Goebbels.

Although Reagan lost the nomination fight to President Ford, who lost the election to Jimmy Carter, the phrase *public diplomacy* remained in moderate use during the Carter years. It found a sponsor in the reporting of The Washington Post's Don Oberdorfer, who wrote in 1977 of "Carter's unorthodox style of public diplomacy" and how "Carter and his team are now beginning to experience the severe problems of public diplomacy — inflexible positions, international bad blood, open confrontations flowing from open declarations."

In the Reagan era, the term *public diplomacy* has prospered, although Reagan likes to use the phrase *quiet diplomacy* from time to time. Gilbert A. Robinson, Reagan's first deputy director of the U.S. Information Agency, moved to the State Department in 1983 to become special adviser to the secretary of state for public diplomacy, and started the Office of Public Diplomacy.

How does he define the phrase? "Governments are learning," says my former colleague, "that while bilateral diplomacy has its place, a television special on a given policy can often have more impact on a foreign government's actions than a host of traditional diplomatic exchanges."

What's next for the tried-and-true combining form of *diplomacy*? The obvious step is *private diplomacy*, but that seems too close to *quiet diplomacy*. The phrase is waiting to be made.

New York Times Service

Primo Levi's Hybrid 'Periodic Table'

By Peggy Polk

United Press International

TURIN — Primo Levi, who wrote the critically acclaimed "The Periodic Table" after 30 years as a chemist, says he was able to begin the book only after ending his professional chemistry career.

Praise has poured in from around the world, somewhat embarrassing him. An American newspaper ran an article in which Levi was described as the "Jewish equivalent of a saint."

"I wrote to complain," Levi said at his apartment on a tree-lined boulevard in Turin, where he lives with his wife of more than 30 years, Lucia Morpurgo. "I'm not a saint."

Summit Books has just published a 1982 novel by Levi, "If Not Now, When?" translated by William Weaver (\$15.95). Partly to publicize it, the writer is scheduled for a lecture tour that will take him to New York, California, Indiana and Massachusetts.

"If Not Now, When?" is a return to fiction, the tale of a group of Soviet Jews fighting as partisans from Russia to Italy from 1943 to 1945.

Levi was already well-known in Italy as the author of nine works — autobiography, fiction, science fiction, poetry, essays and an anthology — published since 1947.

"The Periodic Table," published 10 years ago in Italy and released in the United States in December in a translation by Raymond Rosenthal (Schocken Books, \$16.95), is formed mainly of autobiographical essays linked to parts of the table of chemical elements. The book went into its third U.S. printing in February.

"For 30 years I worked as a chemist, writing only on Sundays," said Levi, a thin, bearded man who looks younger than his 65 years. "During 30 years I thought of crossbreeding, a hybridization between chemistry and literature."

"But while working as a chemist I didn't feel able to write my work. In Italy we have a proverb: 'You don't spit in the plate you eat from.' I started 'The Periodic Table' only when I was of retiring."

So, after leaving his job as director of a resins and varnish factory 10 years ago, Levi devoted



Primo Levi: "For 30 years I worked as a chemist, writing only on Sundays."

his time to writing, and recently he bought a word processor. On the walls of the book-lined study where he writes hang a bird and a butterfly that he made of copper wire from his factory to amuse his two children, Lisa, now 36, and Renzo, 27.

"I wrote my first book in 1946, as a catharsis," he recalled. "It was a witness to free me from the weight of Auschwitz." The book was published in English as "Survival in Auschwitz."

"The Periodic Table" takes the author through his childhood in the rarefied, sheltered atmosphere of a Piedmontese Jewish family, his passion for chemistry, his internment in Auschwitz and his life after World War II.

The story begins with Levi's often eccentric forebears. In the language of chemistry, he describes them as similar to the gas argon — "inert in their inner spirit, inclined to disinterested speculation, witty discourses, elegant, sophisticated, and gratuitous discussion."

Such gases are "so satisfied with their condition that they do not... combine with any other element," Levi writes.

The Jews of Piedmont created

a language of Hebrew roots with "Piedmontese" endings. "It was a dialect like Yiddish, which is Hebrew and German, but Yiddish was spoken by one million people and this dialect by only 1,000," Levi said.

By writing about them, he said, he hoped to preserve examples of the dialect, now almost extinct.

Levi said that, at first, his family did not suffer under fascism. "We were a bourgeois family and fascism was a bourgeois party," he said.

When Mussolini adopted Hitler's racial laws in 1938, "everybody was stunned," Levi said. "A law that a Jewish doctor could not care for a Christian patient seemed only stupid." Then "things changed rudely when the Germans occupied Italy. They became tragic in the span of a few days."

Chemistry, for Levi, is a happier subject. He was smitten with love for chemistry as a boy and has never recovered. He treats the elements with the same mixture of humor, affection and respect as he does his friends and relatives.

His work as a chemist is full of excitement and zany adventures,

such as bicycling from farm to farm collecting chicken droppings as a source of the uric acid he needed to make a better lipstick in the lean days just after the war.

He tells of how the element vanadium helped him make peace with his memories of Auschwitz 20 years after he was freed.

In the 1960s, he had occasion to complain to a West German company about a shipment of resins for his varnish factory. At the time, a man he identified as Dr. Müller said that adding vanadium to the varnish would solve the problem.

Müller, it turned out, had been the director of the laboratory at Auschwitz where Levi had worked as a prisoner, he writes. The two men exchanged letters, and Levi found, instead of evil, "a typically gray human specimen, one of the not so few one-eyed men in the kingdom of the blind."

Levi said his reason for returning repeatedly to the war was explained by the Yiddish proverb that serves as an epigraph to "The Periodic Table":

"Troubles overcome are good to tell."

CALIFORNIA POSTCARD

Fixing a Reagan Dream

By Rebecca LaVally

United Press International

SACRAMENTO, California — For almost 10 years, the dream mansion that Nancy Reagan helped design for California governors sat unwanted and unfinished.

Cobwebs hung from the corners of the 18-foot cathedral ceilings. No rugs or furniture graced the bare concrete floors. A window was marred by a bullet hole. Utility systems broke down and stayed that way. Unmowed grass on the property's prime 11 acres (4.5 hectares) dried up.

The house, with two kitchens, two dining rooms, eight bedrooms, eight bathrooms and a tiled roof covering half an acre, resembled an empty supermarket.

All that is changing, Matt Franchi, a Palos Verdes developer, fell in love with the Spanish-style mansion. When the state legislature put the house on the market, Franchi bought it for what he considered a bargain, \$1.3 million.

Franchi said at the time, last September, that he wanted to lease the house to the state, at cost, so that Governor George Deukmejian could live in it.

The cost, however, was staggering. By the state's estimate, the mansion needed \$1 million in refurbishing and repairs. Critics said it did not make sense for the state to sell a house and then pay \$18,000 a month to lease it. Deukmejian rejected Franchi's offer and moved into a \$400,000 home bought with donated money.

Franchi has never given up. He said he had renewed his lease offer, although he had not gotten a response. He said he was fixing up the home — and spending a bundle on it — because he was sure a governor would live there someday.

"When it's finished, he'll say, 'Boy, I'm really glad Matt did this,'" said Franchi. "There won't be a light bulb out. There won't be a weed on the place. Everything will be perfect."

Franchi has talked of creating a private club or subdividing the property, but insists that that is not what he really wants. "This is the proper place for a governor, so I think ultimately that's going to happen. But it may take years. Who knows?"

The public will have an opportunity to inspect Franchi's embellishments May 10 when the mansion

will be opened for a local charity fund-raiser.

Beyond a spacious, open-air courtyard lined with huge flower pots, visitors are greeted by framed pictures of Ronald and Nancy Reagan in the entryway.

Franchi said he wrote to Reagan, who did not respond. But Franchi said he was certain Mrs. Reagan would one day visit the house. "I know Nancy put her heart and soul into this," he said. "She was at the architect's office every day. I know she would love to see it."

Franchi has installed more than 11,000 floor tiles covered by more than 40 Persian rugs, planted 280 trees, created parking for 300 cars, and put in an adobe-style fence, wrought-iron gates, decorative light posts and a closed-circuit-television monitoring system.

There will be a 50-foot (15-meter) swimming pool with a fountain in its center; a spa to be adorned by lion-head fountains on each side of a waterfall; and a lavish bathroom and sauna. Construction workers are still working on those.

Franchi does not want to tell the cost of it all; the names of the subcontractors doing the work cover two typewritten pages. He did say that replacing one missing German-made bronze lock on one of the 116 glass-paneled doors "cost me over 400 bucks."

Built by the state for \$1.4 million on riverfront land donated by friends of Reagan, the house was rejected by Governor Edmund G. Brown Jr., a Democrat, who preferred an apartment near the Capitol.

Deukmejian, a Republican, toured the 30-room mansion with his wife, Gloria, and said he wanted to live there. But state Senator Alfred Alquist, a Democrat, scoffed at that, saying Deukmejian felt compelled to accept the house built for the Reagans but finished after Reagan's second term as governor expired.

Alquist, who led the drive to sell the mansion, insists Deukmejian really didn't care for the place.

Franchi, 56, and his wife, Pat, 33, say they're crazy about the house, which seems to dwarf everything put into it. "The rugs look like somebody threw some postage stamps around," Mrs. Franchi said, laughing. "We're overwhelmed, but it's a home that grows on you."

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